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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,
Petitioner,
v.

DONALD L. SNELLMAN d/b/a NORFIN,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTION PRESENTED

Whether, under 35 U.S.C. § 284, compensatory "reasonable royalty" damages for nonwillful patent infringement may be extended beyond the "use made of the invention by the infringer" to permit recovery for projected sales that were never made.

RULE 28.1 LIST

Petitioner Ricoh Company, Ltd. has no parent company. Its subsidiaries (other than those which are wholly owned) and affiliates include:

Hokkaido Ricoh Co., Ltd.
Aomori Ricoh Co., Ltd.
Yamagata Ricoh Hanbai Co., Ltd.
Iwate Ricoh Co., Ltd.
Fukushima Ricoh Co., Ltd.
Niigata Ricoh Co., Ltd.
Nagano Ricoh Co., Ltd.
Tochigi Ricoh Co., Ltd.
Saitama Ricoh Co., Ltd.
Gumma Ricoh Co., Ltd.
Ibaraki Ricoh Co., Ltd.
Yamanashi Ricoh Co., Ltd.
Chiba Ricoh Co., Ltd.
Nishi-Tokyo Ricoh Co., Ltd.
Higashi-Shizuoka Ricoh Co., Ltd.
Shizuoka Ricoh Co., Ltd.
Ishikawa Ricoh Co., Ltd.
Fukui Ricoh Co., Ltd.
Mie Ricoh Co., Ltd.
Higashi-aichi Ricoh Co., Ltd.
Osaka Ricoh Co., Ltd.
Shikoku Ricoh Co., Ltd.
Kyoto Ricoh Co., Ltd.
Wakayama Ricoh Co., Ltd.
Shiga Ricoh Co., Ltd.
Nara Ricoh Co., Ltd.
Okayama Ricoh Co., Ltd.
Hiroshima Ricoh Co., Ltd.
Yamaguchi Ricoh Co., Ltd.
Tottori Ricoh Co., Ltd.

Shimane Ricoh Co., Ltd.
Kita-Kyushu Ricoh Co., Ltd.
Fukuoka Ricoh Co., Ltd.
Saga Ricoh Co., Ltd.
Nagasaki Ricoh Co., Ltd.
Kumamoto Ricoh Co., Ltd.
Oita Ricoh Co., Ltd.
Miyazaki Ricoh Co., Ltd.
Okinawa Ricoh Co., Ltd.
Sapporo Information System Co., Ltd.
Ricoh Information System Co., Ltd. (Tohoku)
Ricoh Information System Co., Ltd. (Kanto)
Ricoh Information System Co., Ltd. (Tokyo)
Ricoh Information System Co., Ltd. (Chubu)
Ricoh Information System Co., Ltd. (Osaka)
Ricoh Information System Co., Ltd. (Hiroshima)
Ricoh Information System Co., Ltd. (Fukuoka)
Ricoh Tecnonet Co., Ltd. (Tokyo)
Ricoh Tecnonet Co., Ltd. (Osaka)
Parts Component System Co., Ltd.
Sogo Kenkyu-sho Co., Ltd.
Ryoko Computer system Co., Ltd.
Ricoh Teletech Co., Ltd.
Ricoh System Kaihatsu Co., Ltd.
Tera Co., Ltd.
Sun-Synapse Co., Ltd.
Publinix Co., Ltd.
Japan M.E.T.
Japan Unisoft Co., Ltd.
Hasama Ricoh Co., Ltd.
Tohoku Ricoh Co., Ltd.
Ricoh Oyo Denshi Kenkyu-sho Co., Ltd.
Ricoh Denshi Kogyo Co., Ltd.
Ricoh Elemex Co. Ltd.
Ticoh Techno Research Co., Ltd.
Ricoh Tottori Gijutsu Kaihatsu Co., Ltd.

AT&T Ricoh Co., Ltd.
Ricoh Logistics Co., Ltd.
San-ai Fudosan Co., Ltd.
San-ai Kanko Co., Ltd.
Ricoh Lease Co., Ltd.
Ricoh Seiki Co., Ltd.
Kita-Kyushu Coca-Cola Bottling Co., Ltd.
Ricoh Micro Shashin Co., Ltd.
Ricoh General Service Co., Ltd.
Ricoh International Systems Co., Ltd.
Ricoh Engineering Co., Ltd.
Soiku Co., Ltd.
Nippon Mitek Co., Ltd.
Ricoh Kyoiku Kiki Co., Ltd.
System Ito Co., Ltd.
Ricoh Business Machines Co., Ltd.
Ricoh Australia Pty., Ltd.

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IN THE
SUPREME COURT OF THE UNITED STATES

October Term, 1988

No. ____

RICOH COMPANY, LTD.,

Petitioner

v.

DONALD L. SNELLMAN d/b/a NORFIN,

Respondent.

PETITION FOR A WRIT OF CERTIORARI

Petitioner, Ricoh Company, Ltd., respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit entered November 25, 1988, in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 862 F.2d 283. It is reprinted in the appendix at page 25a with an announcement of the entry of the judgment.

The order of the United States District Court for the Northern District of California entering final judgment is unreported, as are the order granting partial JNOV and granting new trial on the issue of damages, the order limiting damages to actual sales, and the order limiting plaintiff's proof of damages at trial, upon all of which the order entering final judgment was based. The judgment is reprinted in the appendix at page 23a; the orders are reprinted in the appendix at pages 2a, 11a and 15a, respectively.

Three prior opinions of the Court of Appeals for the Federal Circuit deciding interlocutory appeals concerning contractual issues in this case are reprinted in the appendix at pages 7a, 9a, and 20a, respectively. The jury's answers to special interrogatories at the trial are reprinted in the appendix at page 1a.

JURISDICTION

The judgment of the Court of Appeals for the Federal Circuit was entered November 25, 1988. Rehearing was denied by the Federal Circuit in an order dated February 2, 1989. App. at 42a. Rehearing *in banc* was declined with the notation that Judge Nies would rehear the case *in banc*. App. at 44a.

The jurisdiction of this Court to review the decision of the Federal Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

35 U.S.C. § 284, Damages:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

STATEMENT OF THE CASE

The jurisdiction of the District Court in this case was invoked under 28 U.S.C. § 1332 (diversity of citizenship) and § 1338(a) (patent cases).

In this case, the Federal Circuit has approved an award of damages for nonwillful infringement based on extensive projected sales that never occurred, resulting in a "reasonable royalty" of over 400% of the total revenues realized by petitioner on sales of the infringing device. Petitioner seeks this writ of certiorari to clarify that damages for patent infringement must be based on actual sales or uses of the patented invention.

In 1978 and 1979, petitioner Ricoh Company, Ltd. ("Ricoh") sought a license from respondent, Donald Snellman d/b/a Norfin ("Norfin"), to use the invention described in Patent No. 3,414,254 ("the '254 patent") to develop a collator for use

with a photocopying machine it was developing. Although Norfin had previously granted licenses under the same patent to Ricoh at a per-unit royalty rate of five percent, Norfin refused the license, seeking instead to obtain a contract to develop and manufacture the collator.

In December 1979, Ricoh and Norfin entered into a contract which obligated Norfin to develop a collator embodying the invention described in the '254 patent and thereafter to supply collators to Ricoh on a per-unit basis; each collator thus sold by Norfin to Ricoh would include an implied patent license from Norfin. Norfin failed to meet the delivery schedule established by the contract. When the prototype was ready for delivery in June 1980, Norfin refused to ship it unless Ricoh agreed to a new contract that drastically changed the terms of the original agreement. Ricoh rejected the new terms. When Norfin continued to refuse to ship the collator prototype, Ricoh terminated the contract on September 11, 1980.

When Norfin refused to ship the collator prototype, Ricoh began work on a substitute. This project focused on the development of an early Ricoh prototype that had been abandoned during the negotiations and agreement with Norfin. During the development of the project, Ricoh sought and obtained legal opinions from two independent law firms in the United States specializing in patent law, concerning whether the collator it was developing infringed Norfin's patent. Both advised Ricoh that its collator did not infringe the '254 patent. On November 10, 1982, Norfin filed this action alleging breach of contract and patent infringement.

At the first trial of the matter, the jury found that Ricoh had infringed the '254 patent, but that the infringement was nonwillful. It nonetheless awarded, as a "reasonable royalty," damages equal to more than 400% of the total revenues Ricoh realized from the sale of the infringing collators. Ricoh sold

1814 collators for total revenues of approximately $2.7 million, plaintiff claimed $24-$26 million as a reasonable royalty, and the jury awarded $12 million to Norfin.[1] This award was made after plaintiff's expert testified that *if* Ricoh had used a different distribution network, it *could have sold* many more photocopiers and collators than it actually did, and thus *could have realized* $276 million in revenues from United States sales rather than the $2.7 million actually realized. The expert's opinion was based in part on a revenue projection by a Ricoh employee estimating that Ricoh might sell 48,000 collators if it produced them on an OEM (original equipment manufacturer) basis for marketing by a company already established in the market, rather than entering the market by starting its own dealer network, as it did. The trial court concluded that the $12,000,000 award was a "miscarriage of justice" and granted a new trial on the issue of damages.

In proceedings leading up to the retrial, Ricoh brought several motions concerning the measure of damages. The trial court granted Ricoh's motion to require that damages be measured according to the actual scope of the infringing use. It also found that Norfin was not entitled to recover damages based on projected photocopier sales revenue, pursuant to the "entire market value" rule, because Norfin conceded that it had never sold or planned to sell photocopiers.[2] The trial court also concluded that it should exclude from evidence a settlement

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[1]The jury also awarded Norfin $2.9 million on the breach of contract claim. The district court granted Ricoh's motion for judgment notwithstanding the verdict, and the Federal Circuit affirmed, finding that Norfin's "refusal to ship the prototype collator was nothing less than an attempt to force Ricoh to renegotiate the contract." App. at 22a.

[2]Although Norfin based its royalty damages claim on Ricoh's projected sales revenues for both collators and photocopiers, the only accused device was the Ricoh collator, which accounted for only a small fraction of the revenue projections used by Norfin.

agreement between IBM and Norfin[3] and the document containing the 48,000 unit projection (Exhibit 143).[4]

Throughout discovery Norfin refused to disclose to Ricoh the damages evidence Norfin planned to offer at the retrial. Norfin failed to meet four scheduled deadlines for provision of its damages claim information, including two deadlines set by court order. Eight days before trial, after Ricoh had moved to limit Norfin's proof to the admissible evidence disclosed to that date, Norfin produced a report from its damages witness setting forth three royalty calculations – $453,000, $2,739,500, and $13,149,600. The second calculation violated the court's order limiting damages to actual sales. The third calculation violated that order, the order excluding the IBM-Norfin Agreement, and the court's order eliminating damages based on the "entire market value" rule. *See* App. at 16a-17a. The trial court concluded that the only admissible royalty calculation was $453,000. *Id.* at 18a-19a. Because of Norfin's dilatory discovery conduct, the trial court denied Norfin's request for leave to begin developing new damages estimates. *Id.* Rather

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[3]The IBM Settlement Agreement involved the payment by IBM of a lump sum royalty to Norfin after a jury found that IBM had willfully infringed the '254 patent. At the time of the negotiations, IBM faced an injunction against further production of its infringing collators, and stood to lose a substantial investment in its copier project if it had to develop a new collator. This investment included the training of 250 managers and 4000 salespersons, and the construction of a 5000-employee factory.

[4]Exhibit 143 is a projection made by an employee of Ricoh Company, Ltd. approximately a year before the date of first infringement. It indicates that if Ricoh had contracted to manufacture photocopiers for another company as an original equipment manufacturer, it might have sold as many as 48,000 collators. The projection was never approved by Ricoh's management. Other projections reflecting Ricoh's plan to distribute photocopiers under its own name, as it ultimately did, consistently projected Ricoh's world-wide sales in the 3900 to 6400 range. The number of infringing collators Ricoh actually sold was less than 2000.

than incur the expense of a new trial limited to the issue of damages, Ricoh consented to a judgment of $453,000 in damages plus prejudgment interest of $287,767.

On appeal after the entry of the stipulated judgment, the court of appeals reversed the trial court's exclusion of the IBM-Norfin Settlement Agreement and Exhibit 143.[5] It concluded that where a defendant nonwillfully infringes a patent, a jury may award as compensatory damages a lump sum royalty based on projections of infringing sales, without regard to whether or not those sales were ever made.[6] Accordingly it remanded the case to the trial court with instructions allowing it to reinstate the $12,000,000 verdict.

REASONS FOR GRANTING THE WRIT

This Court should grant certiorari to clarify the proper scope of reasonable royalty damages for patent infringement for four reasons. The Federal Circuit's extension of reasonable royalty damages to uses never made of the patented invention (I) will have an impact in virtually every patent case; (II) will nullify the patent damages statute, which limits damages to the "use made of the invention by the infringer"; (III) will result in a sharp departure from prior judicial decisions concerning damages for

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[5]In ruling on the exclusion of the IBM-Norfin Settlement Agreement, the Federal Circuit indicated that it did not know the basis of the trial court's ruling. It nevertheless concluded that the Agreement could not be excluded under Rule 408.

[6]The Federal Circuit noted that at the first trial, Ricoh had not objected to an instruction concerning the measure of damages offered by Norfin. The judgment of the district court from which Norfin appealed, however, was a direct result of the district court's determination that "reasonable royalty" damages must be based on the actual scope of the infringing use. App. at 13a; *see also id.* at 16a-19a (applying ruling to Norfin's damages calculations). Thus the jury instructions given at the first trial have no bearing on the issue presented for review.

patent infringement; and (IV) will undermine the public policies underlying the patent laws, leading to irrational and unjust results in patent litigation.

This Court has not yet addressed this precise issue since no court has ever before held that a reasonable royalty can be based on sales that didn't occur. The Federal Circuit's decision is, however, in clear conflict with the reasoning in *Aro Mfg. Co. v. Convertible Top Replacement Co.* ("*Aro II*"), 377 U.S. 476 (1964).

I. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Have an Impact in Virtually Every Patent Case.

This case presents a question of fundamental importance in patent litigation. Section 284 of title 35 of the United States Code commands that the damages to be awarded for infringement of a patent are to be adequate to compensate for the infringement but no less than "a reasonable royalty for the use made of the invention by the infringer." Where the patentee has lost sales because of the infringement, he may seek lost profits; otherwise he may recover a reasonable royalty. Where the patentee regularly licenses his invention, an established royalty may be awarded as damages. Reasonable royalty claims based on hypothetical negotiations are often presented by the patentee as an alternative damages measure to be used by the trier of fact if proof of lost profits or an established royalty is inadequate. Even in cases where a patentee is able to show some lost profits or an established royalty, courts have held that the patentee may still claim a reasonable royalty instead. *See, e.g., H. K. Porter Co. v. Goodyear Tire & Rubber Co.*, 536 F.2d 1115 (6th Cir. 1976) (reasonable royalty awarded for years when not exceeded by lost profits); *Tights, Inc. v. Kayser-Roth Corp.*, 442 F. Supp. 159, 164-65 (M.D.N.C. 1977) (reasonable

royalty greater than established royalty). *See also* 5 D. Chisum, *Patents*, Remedies, §§ 20.03[1], [2] (1988). Thus, the amount of a "reasonable royalty" is potentially at issue in every patent case.

By disconnecting reasonable royalty calculations from the actual use made of the invention, the Federal Circuit has invited plaintiffs to resort to the reasonable royalty measure of damages as a way to collect damages far beyond those consistent with the compensatory purpose of the statute. Permitting damages claims to be based on speculation about how many infringing sales *might have occurred* will turn the calculation of a reasonable royalty, and thus the calculation of patent damages in general, into a sporting contest in which experts attempt to justify extravagant royalty projections with marketing and sales scenarios that never occurred. If this approach is sanctioned, a patentee's recovery need bear no relationship to the actual damages sustained, contrary to this Court's decision in *Aro II*, 377 U.S. at 504-06.

Federal trial courts presiding over patent cases should not be obliged to guess at the scope and extent of the decision below. The Federal Circuit is the sole court of appeals addressing patent issues, and thus other Circuits cannot correct its course through well-reasoned opinions instructing the federal trial courts. This Court should grant certiorari to establish clearly that a reasonable royalty to compensate an inventor whose patent has been infringed cannot be based on projections of infringing sales that never occurred.

II. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Nullify the Patent Damages Statute, Which Limits Damages to the "Use Made of the Invention by the Infringer."

Section 284 allows patentees to recover "a reasonable royalty *for the use made of the invention by the infringer.*" 35 U.S.C. § 284 (emphasis added). This language clearly does not contemplate that an infringer must pay a royalty for uses not made of the invention. Yet the Federal Circuit's decision approves just such an award by allowing damages to be based on projected sales that were never made. The Federal Circuit's approach reads out of the statute the requirement that damages be determined according to the infringer's use of the invention.

Respondent argued to the trial court that damages for nonwillful infringement were not limited by the actual sales of infringing collators, and to the Federal Circuit that the term "use" has no particular meaning. The trial court held correctly that "there is no warrant in law for the recovery by a patentee of damages for an infringement in the form of an act or acts which did not in fact occur." App. at 13a. But the Federal Circuit approved an award, rejected by the trial court, that included payment of a "lump sum" royalty for collators that were never even made, much less sold. The Federal Circuit approved of an award more than four times Ricoh's total sales "in view of . . . Ricoh's *sales forecast* of 40,000 to 50,000 copiers." App. at 40a (emphasis added).

The Federal Circuit's reasoning would render the words "for the use made of the invention by the infringer" superfluous. Such a construction of section 284 violates "the well-settled rule of statutory construction that all parts of a statute, if at all possible, are to be given effect." *Weinberger v. Hynson, Westcott & Dunning, Inc.*, 412 U.S. 609, 633 (1973); *see also*

D. Ginsberg & Sons v. Popkin, 285 U.S. 204, 208 (1932) (construction would violate "cardinal rule that, if possible, effect shall be given to every clause and part of a statute"). This Court should grant certiorari to clarify that section 284 means what it says.

Reasonable royalty damages far in excess of the amount necessary to compensate the patentee for the actual use made of the invention are inconsistent with the legislative scheme set forth in section 284. The effect of the Federal Circuit's decision is to confuse the punitive and deterrent purpose of awarding treble damages and attorney's fees with the purely compensatory purpose of computing a reasonable royalty.[7] The reasonable royalty measure of damages was never intended to serve a punitive or deterrent function.

In enacting section 284, Congress provided separately for damages to punish and deter willful infringers. As Congress noted in enacting the predecessor to section 284:

> [T]he discretion given the court [to award attorney's fees], in addition to the present discretion to award triple damages, will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.

S. Rep. No. 1503, 79th Cong., 2d Sess. 2, *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387 (1946). Thus the Federal Circuit's approach contravenes the legislative scheme to

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[7]This confusion is evident not only in this case but also in prior cases where the Federal Circuit has taken the position that a reasonable royalty for an infringer is more than a reasonable royalty for a noninfringer, suggesting that otherwise an infringer would have nothing to lose by paying only the normal royalty. *See, e.g., Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983).

compensate the patentee by awarding a reasonable royalty, and punish only willful infringers with treble damages and attorneys' fees. This Court should grant certiorari to prevent the Federal Circuit from further eroding the legislatively-mandated distinction between compensatory and punitive damages.

III. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Result in a Sharp Departure from Prior Judicial Decisions Concerning Damages for Patent Infringement.

The measures of damages available pursuant to 35 U.S.C. § 284 are well established:

> There are two methods by which damages may be calculated under this statute. If the record permits the determination of actual damages, namely, the profits the patentee lost from the infringement, that determination accurately measures the patentee's loss. If actual damages cannot be ascertained, then a reasonable royalty must be determined.

Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983). *See also Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1157 (6th Cir. 1978); *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1321 (2d Cir.), *cert. denied*, 419 U.S. 833 (1974); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1127 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). Thus, though the "reasonable royalty" is a floor beneath which damages may not fall, *see Bandag Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1583 (Fed. Cir. 1983), it also represents the only available type of damages for infringement absent proof of lost profits. Since Norfin has neither claimed nor offered proof of lost profits, the

only damages award that can be made in the present case is "a reasonable royalty for the use made of the invention by the infringer."

The reasonable royalty measure of damages addresses the problem of compensating a patentee for infringement of its patent when lost profits cannot be shown. *See Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988); *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1914); *see also* 5 D. Chisum, *supra*, § 20.02[2]. To determine a reasonable royalty rate for the patentee's license (where there is no established royalty, which is the best measure of a reasonable royalty), courts developed the fiction of hypothetical negotiations between a willing licensor and willing licensee, neither of whom is compelled to deal with the other. *See, e.g., Horvath v. McCord Radiator & Mfg. Co.*, 100 F.2d 326, 335 (6th Cir. 1938), *cert. denied*, 308 U.S. 581 (1939); *Austin-Western Road Mach. Co. v. Disc Grader & Plow Co.*, 291 F. 301, 304 (8th Cir. 1923), *cert. denied*, 263 U.S. 717 (1924).

In determining a reasonable royalty, the trier of fact is to determine what a prudent licensee would have been willing to pay as a royalty and yet be able to make a reasonable profit. This amount must also be one which would have been acceptable by a prudent patentee who was willing to grant a license. *Georgia-Pacific Corp.* 318 F. Supp. at 1121-22. The object of the analysis is not merely to derive a hypothetical royalty rate, but to approximate the actual loss suffered by the patentee. *Fromson*, 853 F.2d at 1575. Accordingly, the actual extent to which the infringer has made use of the invention has long been considered an important factor relevant to the determination of a reasonable royalty.[8] *See, e.g., Sinclair Ref.*

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[8]For comprehensive lists of the factors relevant to the determination of the amount of a reasonable royalty for patent infringement, *see generally*

Co. v. Jenkins Petroleum Process Co., 289 U.S. 689, 697 (1933); *Dowagiac Mfg. Co.*, 235 U.S. at 648; *see also Panduit Corp.*, 575 F.2d at 1159; *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

The importance of the extent of use to the reasonable royalty calculation is illustrated by this Court's decision in *Dowagiac Mfg. Co.*, where the Court explicitly approved the use of reasonable royalty damages. Addressing the measure of compensatory damages in the absence of proof of lost profits, the Court stated:

> As the exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken. So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. [Citing cases.] But, as the patent had been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, *and the extent of the use involved.*

235 U.S. at 648 (emphasis supplied).

The Federal Circuit's opinion severs the reasonable royalty analysis from its compensatory purpose not only by eliminating

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5 D. Chisum, *supra*, § 20.03[3]; *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

the extent of use as a factor, but in other important ways. For example, in prior cases the time of the hypothetical negotiations has been fixed at the time of the first infringement. *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986); *see also Panduit Corp.* 575 F.2d at 1158 (key element is to return to date when infringement began). The willing licensor and willing licensee are presumed to negotiate under the circumstances and with the information available to the patentee and infringer at the time of the first infringement. *See, e.g., Georgia-Pacific Corp.*, 318 F. Supp. at 1121-22. Consistent with the compensatory purpose of the remedy, however, information that becomes available after the first infringement is also considered. *See, e.g., Sinclair Ref. Co.*, 289 U.S. at 697-98 (1933); *Amerace Esna Corp. v. United States*, 462 F.2d 1377, 1380-81 (Ct. Cl. 1972).

The Federal Circuit's decision here inexplicably departs from this analysis by allowing consideration of sales projections no longer operative at the time of the first infringing sale (*e.g.*, Exhibit 143). In allowing the admission of the IBM-Norfin Settlement Agreement, which was negotiated long after the infringement in that case, the decision also allows consideration of factors that would not have faced the licensor and licensee at the time of the hypothetical negotiations.

Most extreme is the Federal Circuit's departure from the principle that a willing licensee should be able to make a profit and from cases holding that a royalty award of 100% of the expected per unit profit is an excessive royalty. *Georgia Pacific Corp.*, 446 F.2d at 298-300 (100% of infringer's profits is an excessive royalty); *Atlas-Pacific Engineering Co. v. Geo. W. Ashlock Co.*, 339 F.2d 288, 289 (9th Cir. 1964), *cert. denied*, 382 U.S. 842 (1965) (100% of infringer's receipts from rental of infringing machines is an excessive royalty). Clearly no licensee would agree to pay as a royalty four times the sales price of the product using the invention. Yet the Federal Circuit

approved of a $12 million damages award in a case in which the total revenues from sales of the infringing product amounted to $2.7 million.

The Federal Circuit has abandoned the traditional framework of the willing licensor-willing licensee hypothetical for an "anything goes" approach, offering little or no guidance to district courts that must apply damages measurement principles in practice. Prior to the Federal Circuit's decision in this case, no court had held that an infringer could be required to pay a lump sum royalty that included payments for sales or uses of the infringing device that were contemplated but which never occurred. Rather, this Court held in *Aro II* that section 284 "allows the award of a reasonable royalty, or any other recovery, only if such amount constitutes 'damages' for the infringement." 377 U.S. at 505. Similarly, lower courts, including the Federal Circuit, had recognized that "a court is not at liberty, in [applying the willing licensor-willing licensee hypothetical] to abandon entirely the statutory standard of damages 'adequate to compensate' for the infringement." *See, e.g., Fromson,* 853 F.2d at 1575.

The legal fiction of hypothetical negotiations between a willing buyer and willing seller has long been used as an aid to determine a reasonable royalty rate. But it has never before been allowed to supply a substitute for the actual number of infringing uses as the royalty base to which the rate is applied.[9] There is no need to resort to fiction in determining the royalty base, because the number of units sold can virtually always be established.

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[9]A royalty is the product of two factors: royalty rate and royalty base. In the case of sales of a patented machine (as here), the royalty base is the number of machines sold, or the revenue generated by such sales. The royalty rate may be a percentage (*e.g.*, 10% of net sales price) or a lump sum per machine (*e.g.*, $100 per unit sold); it is multiplied by the royalty base to determine the total royalty.

Accordingly, even where a "lump sum" royalty has been awarded, the amount of the royalty has been tied, by apportionment or otherwise, to the actual number of infringing devices used or sold by the infringer. *See, e.g., Hanson,* 718 F.2d at 1075 (lump sum per machine royalty damages limited to years machines were in use by defendant); *Stickle,* 716 F.2d at 1550 (lump sum per machine); *Minnesota Mining & Mfg. Co. v. Berwick Indus.,* 393 F. Supp. 1230, 1245-46 (M.D. Pa. 1975) (lump sum royalty prorated to infringing uses), *aff'd,* 532 F.2d 330 (3d Cir. 1976).

The Federal Circuit's decision is a significant departure from these prior cases. In this case Ricoh sold only 1814 collators, but the Federal Circuit's decision allows Norfin to be awarded damages as if Ricoh had sold 40,000 to 50,000 collators. By failing to limit damages to the scope of the infringing use – *i.e.*, actual sales – the Federal Circuit's analysis turns the determination of a reasonable royalty into a purely abstract exercise without regard to the compensatory purpose of the damages remedy. Certiorari should be granted to restore, for the guidance of the lower courts, a sound framework of judicial interpretation for the determination of statutory damages measured by a reasonable royalty.

IV. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Is Contrary to the Public Policies Underlying the Patent Laws and Will Lead to Irrational Results in Patent Litigation.

The Federal Circuit's decision will lead to wildly disproportionate damages for inadvertent acts of infringement, thereby threatening the balance embodied in the patent laws that seeks to protect competition as well as promote innovation. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,* ___ U.S. ___, 109 S. Ct. 971, 975-78 (1989). The recovery of a royalty

of more than 400% of petitioner's total revenues from the infringing device will exert an enormous *in terrorem* effect on inventors seeking to refine existing technology.

The Federal Circuit's decision is inconsistent with the policy of patent laws to promote free competition through improvement and refinement of existing technologies.[10] The risk of incurring enormous damages for a very small volume of sales, undertaken in good faith but later found to be infringing, will chill efforts to refine existing technology. The huge price tag for guessing wrong will substantially reduce the challenges to questionable and invalid patents. Yet such challenges are vital to the preservation of competition in the face of patent monopolies. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 669-74 (1969); *see also* 5 D. Chisum, *supra*, § 20.03[4] at 20-177.

The Federal Circuit's unwarranted extension of patent recovery to uses never made of the invention will also have a tremendous adverse impact on the orderly administration of patent litigation in the district courts. Under the theory approved by the Federal Circuit, damages for patent infringement will be based on purely imaginary elements, independent of the acts of infringement which actually occurred. Triers of fact will be asked not only to calculate the royalty rate to which a willing licensor and willing licensee might have agreed, but also to imagine the number of infringing uses to which the invention might have been put under different circumstances. Contemplated uses and projected sales will be treated as acts of infringement, with the patentee theoretically sustaining damage from the mere consideration by the infringer of those additional uses or sales.

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[10]The Federal Circuit has undervalued this policy. *See, e.g., Interpart Corp. v. Italia*, 777 F.2d 678 (1985) (upholding prohibition of use of direct molding process to copy unpatented articles), *disapproved, Bonito Boats, Inc.*, 109 S. Ct. at 984-85.

The Federal Circuit's approach would inevitably lead to inequitable and indefensible damages awards. The court of appeals' decision even sanctions the award of a lump sum royalty for uses prevented by the patentee himself. For example, if a patentee can obtain an injunction and then seek damages based on projected sales, he is placed in a much better position than if he had negotiated a lump sum license prior to infringement: A licensor who prevents a licensee from obtaining the full benefit of the license granted would not be entitled to keep the full amount of any lump sum paid by the licensee. Thus, a paid-up royalty is not equitable unless prorated to the use actually made of the invention by the infringer. That is so because a court can never give to the infringer the unlimited production rights that a willing licensee would have obtained in negotiating a paid-up license. Thus, the patentee will be overcompensated and the nonwillful infringer punished by the amount which represents payment for uses never made of the invention.

Moreover, the Federal Circuit's approach sanctions identical treatment for radically different acts of infringement, and radically different treatment for similar acts of infringement involving the same patent.[11] It assumes that the patentee suffers the same injury whether the infringer sells a few units or hundreds of thousands of units, making the award turn on plaintiff's expert's estimates of what the infringer could have sold. Finding themselves exposed to the same liability whether or not they cease production, alleged infringers will have no incentive to discontinue infringing sales voluntarily.

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[11]In this very case, for example, Ricoh's nonwillful infringement of the '254 patent by sales of only 1814 units resulted in an award of $12,000,000, while IBM's willful infringement of the same patent by sales of over 9000 units resulted in an award of $7,500,000.

Finally, the Federal Circuit's analysis also undermines the compensatory purpose of reasonable royalty damages. If the amount of a reasonable royalty does not depend upon actual use or actual sales, then defendants can argue for small lump sum royalties based on low sales or profit projections. If it is logical to award damages for uses never made of an invention, it is equally logical not to award damages for uses that are made of the invention. Either the words "use made of the invention by the infringer" have a meaning or they do not. Their meaning cannot depend on whether the words are invoked by a plaintiff or by a defendant. Thus, where an infringer's product is wildly successful beyond anyone's expectations, a jury could find that at the time of infringement the patentee would have received only a small paid-up royalty that does not include payment for unanticipated uses or sales of infringing units. Although the Federal Circuit's decision appears to be intended to increase the size of damage awards to patentees, in many cases it may have the opposite effect.

CONCLUSION

For these reasons, this petition for certiorari should be granted to resolve a question fundamental to the continued effective administration of the federal patent laws.

Respectfully submitted.

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May 1, 1989.

SPECIAL JURY INTERROGATORIES

1. Do you find that the accused Ricoh collators infringe the Snellman '254 patent? **Yes** or No.

If yes, what are the damages to be awarded to Norfin as a reasonable royalty? **$ 12,000,000.**

2. If you find that the collators infringe the Snellman patent, do you find that such infringement was willful and deliberate? Yes or **No.**

3. Do you find that Ricoh breached the contract? **Yes** or No.

If yes, what are the damages to be awarded to Norfin as contract damages? **$ 2,900,000**.

4. Do you find that Norfin breached the contract? Yes or **No**.

If yes, what are the damages to be awarded to Ricoh as contract damages? $_____

DATE: August 3, 1984

SIGNED:

/s/ Faye A. Dunseth
Jury Foreperson

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN
d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104

Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-Chome
Minato-Ku, Tokyo 107, Japan

Defendants.

No. C-82-6188-WAI(SJ)
ORDER

I.

MOTION FOR JUDGMENT NOV

The motion of defendant for judgment notwithstanding the verdict is GRANTED, or in the alternative, a new trial is GRANTED on all issues with respect to plaintiff's breach of contract claim and DENIED with respect to plaintiff's patent infringement claim.

In ruling on defendants' motion for judgment notwithstanding the verdict, the court adheres to and follows the standards well said by Judge Sneed in *William Inglis & Sons*

Baking Co. v. ITT Continental Baking Co., Inc., 668 F.2d 1014 (9th Cir.), *cert. denied*, 459 U.S. 825 (1983). The judgment NOV should be granted if, without accounting for the credibility of witnesses, the evidence and its inferences, considered as a whole and viewed in the light most favorable to the non-moving party can support only one reasonable conclusion – that the moving party is entitled to judgment notwithstanding the adverse verdict. This court cannot reach a result inconsistent with the verdict if the verdict is supported by substantial evidence.

The court is of opinion that the evidence taken as a whole supports only one reasonable conclusion on the contract claim: defendant did not breach the agreement of December 13, 1979.

Furthermore, the court is of opinion that a verdict finding that plaintiff Snellman was entitled to withhold performance on his part of the agreement of December 13, 1979, pursuant to the provisions of Uniform Commercial Code, §2-609, is an unreasonable conclusion in light of the evidence.

As pointed out by defendant, the court has previously ruled that no communication between the parties subsequent to the date of July 21, 1980, is relevant to the issue of whether a reasonable person in the position of plaintiff would have had adequate grounds for insecurity that the contract in question would be performed according to its terms.

The plaintiff has demonstrated no grounds for insecurity sufficient to justify the withholding of performance. Plaintiff relies on the following evidentiary grounds to demonstrate objective grounds of insecurity (plaintiff's opposition to defendant's motion for judgment NOV pp. 9, *et. seq.*):

1. Snellman's stated belief that the forecasts provided by Ricoh in Schedule D of the Agreement were unfounded and unrealistic.

2. In May or June of 1980, the forecasts were so out of date as to raise doubts as to Ricoh's intent to abide by the Agreement.

3. The revision of sales projections is a commercially reasonable practice in the reprographics industry.

4. Testimony of Mullen and Stone that the projections contained in Section D were on the low side.

5. Ricoh failed to provide plaintiff with specific information as to quantity, scheduling or marketing.

6. The price of the collators was an open contractual question which Ricoh did not negotiate in good faith and in accordance with commercial practices.

7. The quality of the Norfin prototype was not a condition precedent under the Agreement of December 13, 1979, to Ricoh's obligation to provide timely information and to negotiate open terms of the contract.

8. The development of the prototype developed by Ricoh was sufficient as a grounds for insecurity that Ricoh would fail to purchase all of its requirements from Norfin.

9. Ricoh's refusal to ship its prototype which it displayed at the Hanover Fair to Norfin for Norfin's inspection, and did not give Norfin information as to the response evoked by the prototype at the Hanover Fair, thus giving rise to insecurity on the part of Norfin.

10. The copiers sent by Ricoh to Norfin, at the latter's request, did not work properly.

The evidence does not demonstrate by a preponderance that any action or failure to act on the part of Ricoh would cause apprehension in the mind of a reasonable man that Ricoh *would not perform the contract which the parties negotiated and agreed to* in accordance with its terms.

While commercial usages in a particular industry no doubt impose upon parties the duty to act in good faith in their dealings with each other, the notion that such usages in effect form a new and different agreement between the parties is unacceptable.

Nor does the court find in Norfin's repeated efforts to receive performance from Ricoh other than that specified in the contract the type of assurance request contemplated by UCC §2-609.

The court rejects plaintiff's contention that satisfaction of Ricoh in the quality of the product produced by Norfin is not an enforceable condition precedent to any further duty on the part of Ricoh. Surely, no further reasonable negotiation with respect to the price or quantity of collators to be purchased could reasonably happen until all parties were satisfied with respect to the quality of the product produced.

In the alternative, the court GRANTS the defendants' motion for new trial on all issues pertaining to the breach of contract claim.

If it be subsequently found that there is substantial evidence to support the verdict and thus render a JNOV inappropriate, then this court finds that the jury verdict on the breach of contract claim is against the clear weight of the evidence on all issues.

The right to withhold performance by Norfin under UCC §2-609 is supported only by the unilateral opinions of Snellman, commercial usages at odds with the specific provisions of the negotiated contract and refusal by Ricoh to comply with demands of Norfin for performances not specified in the contract.

II.

MOTION FOR NEW TRIAL

The defendant's motion for new trial on the patent claim is GRANTED *on the issue of damages alone*. Fed. R. Civ. P. 59(a), and DENIED on the issue of infringement.

Since patent infringement damages must be determined as of the date of first infringement, *Hanson v. Alpine Ski Lodge*, 718 F.2d 1075, 1079 (C.A.F.C. 1983), the testimony of Stone with respect to the Richo-Savin negotiations and Exhibit 143 were irrelevant to the issue of damages and should have been either excluded or appropriately limited by admonition. Furthermore, the admission of the IBM-Norfin agreement as a comparable license agreement was probably error in light of the unique circumstances surrounding the agreement.

The verdict of $12,000,000 constitutes a miscarriage of justice in the opinion of this court.

DATED: 1/18/85

/s/ WILLIAM A. INGRAM
United States District Judge

Note: This Order will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

DONALD L. SNELLMAN, d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee.

Appeal No. 85-2183

ON MOTION

ORDER

The court has before it the motion of appellee Ricoh Company Ltd. (Ricoh) to dismiss the appeal of appellant Donald L. Snellman d/b/a Norfin (Norfin), on the ground that the appeal is interlocutory and therefore premature.

Norfin sued Ricoh for patent infringement and breach of contract. The jury returned a verdict for Norfin on all issues and found damages. Ricoh moved for judgment notwithstanding the verdict or, alternatively, for a new trial. The district court left untouched the jury's verdict on the liability phase of the patent infringement claim, but entered a judgment N.O.V. on the issue of contract breach and granted a new trial on the issue of contract breach and on the amount of patent damages.

Norfin's appeal from the district court's order, though broadly stated, is necessarily limited to the issues on which it lost, *i.e.*, the grant of judgment N.O.V. on the contract issue and the grant of a new trial on breach of contract and on the amount of damages for patent infringement. Because it prevailed on the issue, Norfin cannot appeal from the judgment respecting patent infringement, under 28 U.S.C. § 1292(c)(2) or otherwise.

The trial court's entry of judgment N.O.V. on the contract liability issue is final and appealable under Fed. R. Civ. P. 50. 9 J. Moore, *Moore's Federal Practice*, ¶ 110.08[3] at 122. The district court's conditional grant of a new trial on the contract issue did not affect the finality of the judgment N.O.V. on that issue. Fed. R. Civ. P. 50(c)(1).

The district court's order for a new trial on patent damages is also appealable, the issue being whether the grant of a new trial on that issue constituted an abuse of discretion. 6A J. Moore, *Moore's Federal Practice* ¶ 59.08[6].

Accordingly, IT IS ORDERED THAT:

(1) Ricoh's motion for leave to file a reply to Norfin's opposition to Ricoh's motion to dismiss is granted;

(2) Ricoh's motion to dismiss is denied.

FOR THE COURT

Dated 8 Jan. 1986

/s/ Howard Markey
Chief Judge

Note: This Order will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals for the Federal Circuit

DONALD L. SNELLMAN, d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee.

Appeal No. 85-2183

ON MOTION

Before MARKEY, Chief Judge.

ORDER

Ricoh Company, Ltd. (Ricoh) moves for clarification of a January 8, 1986 order denying Ricoh's motion to dismiss this appeal.

Having reviewed the motion, the opposition of Norfin, and Ricoh's reply

IT IS ORDERED:

(1) The motion is granted.

(2) Only that portion of the district court's order granting the judgment N.O.V. and granting new trial on breach of contract is appealable at this time. 9 J. Moore, *Moore's Federal Practice*, ¶ 110.08[3].

(3) The order of January 8, 1986 correctly stated that the order for new trial on patent damages is appealable, but did not note that it is appealable only when merged into a final, appealable judgment. The order of January 8, 1986 is affirmed in all other respects.

FOR THE COURT

Dated 7 Feb 86

/s/ Howard Markey
Chief Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN d/b/a NORFIN,
500 First Avenue South
Seattle, Washington 98104,
Plaintiff,

v.

RICOH COMPANY, LTD.,
15-5, Minami-Aoyama, 1-chome
Minato-ku, Tokyo 107, Japan,
Defendant.

NO. C-82-6188-WAI(SJ)

ORDER

Defendant Ricoh has made four *in limine* motions relating to the measure of damages for patent infringement to be employed in the upcoming trial of the action. The parties have characterized the motions respectively as First Motion, Second Motion, Third Motion and Fourth Motion, and the court will adopt the same characterization.

First Motion

This motion effectively seeks the court's ruling that by reason of its exercise of its "right of cover" as provided in the Uniform Commercial Code, defendant Ricoh did not infringe the '254 patent, and any damages due Norfin are contractual damages stemming from the agreement between the parties.

The motion is DENIED.

The jury found that the patent was infringed and that finding will not be overturned by the court in the guise of selecting the appropriate measure of damages.

Ricoh disclaims intent to challenge the jury's findings, asserting that it desires only to modify the legal conclusions flowing therefrom. However, the result which Ricoh seeks to achieve will in fact alter a jural finding. Furthermore, to reach the result sought by Ricoh would require the making of at least one finding by the court: that the exercise of the right of cover in these circumstances is equivalent to an authorized use of technology within the meaning of 35 U.S.C. § 271.

The theory now advanced as a bar to infringement, either was not adequately presented to the jury upon the trial of the issue or was rejected by the jury. In either case, this court will not disturb the jury's finding.

II.

Second Motion

This motion deals with the method of calculation of the infringement damages and would confine such calculation to the terms of the contract of purchase and sale between the parties.

The motion is DENIED.

While the per unit sales price might be some evidence of royalty rate, if separated in accordance with the methodology suggested by Ricoh, it is not necessarily the exclusive method of determining the royalty rate. Whether it is or is not is a matter of jural fact.

III.

Third Motion

This motion seeks to measure the damages for patent infringement to a royalty base co-extensive with the number of infringing sales and not broader than that.

The motion is GRANTED.

Neither *Panduit Corp. v. Stahlin Bros. Fibre Works,* 575 F.2d 1152 (6th Cir. 1978), nor *Hanson v. Alpine Valley Ski Area, Inc.,* 718 F.2d 1075 (Fed. Cir. 1983), each of which are strongly relied upon by Norfin, supports the contention that the royalty rate fixed as provided in those cases be applied as a "lump sum" to all sales hypothetically contemplated by the parties at the time of the first infringement as distinguished from the actual infringing sales conducted. The "hindsight" referred to in those cases concerns the contemplated as distinguished from actual *profit element* utilized in the fixing of the reasonable royalty rate. Those cases do not purport to deal with the fixing of the royalty base to which the rate is applied.

An examination 35 U.S.C. § 284, and the authorities cited by respective counsel, convinces the court that there is no warrant in law for the recovery by a patentee of damages for an infringement in the form of an act or acts which did not in fact occur.

IV.

Fourth Motion

By this motion Ricoh seeks an order permitting it to try damages alleged to be owed to it by reason of Norfin's alleged breach of contract. The motion also seeks a modification of this

court's order of January 18, 1985, by broadening its ruling on the judgment notwithstanding the verdict to include the issues raised by the counterclaim and for new trial on the issue of damages by reason of Norfin's purported breach.

This motion requires further argument because it presents a serious question which the court feels some hesitation in deciding on the basis of the materials now before it.

On the basis of those materials, the court is inclined to deny the motion because it is not timely within the meaning of Rules 50(b) and 59(b), and because in the guise of a motion *in limine* Ricoh seeks to in effect reargue motions heard and determined more than a year ago.

On the other hand, the court's January 18, 1985, ruling that Ricoh did not breach the contract can logically be interpreted in the manner which Ricoh regards it, and if that is so, Ricoh should not be denied its opportunity to try the issue of damages, if any.

The problem is one of overcoming the effect of failing to raise these issues at the appropriate time.

Dated: 4-4-86

/s/ WILLIAM A. INGRAM
United States District Judge

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104
Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-chome
Minato-ku, Tokyo 107, JAPAN
Defendant.

No. C-82-6188-WAI(SJ)

PROPOSED ORDER

The motion of defendant Ricoh Company for a preclusionary order under Rules 16(f) and 37 came on for hearing on July 14 and July 15, 1986. The motion was originally filed on

June 17, 1986 and was noticed for hearing on June 26. On June 24, the plaintiff filed an opposition to this motion.

The June 26 hearing resulted in a stipulated Court Order holding the preclusion motion in abeyance, so that the Court could give the plaintiff one further opportunity to meet its discovery obligations. The stipulated order provided that certain damage interrogatory answers were to be provided by July 9 and plaintiff's expert was to be made available for a deposition by July 11. The plaintiff failed to comply with these Court-ordered deadlines, and on July 11, defendant renewed its motion for a preclusionary order.

On the evening of July 13, the plaintiff telefaxed a damage report of its designated expert to defendant. That report was made available to the Court by defendant on the morning of July 14, and the report was considered at the hearing conducted by the Court later that day.

Plaintiff's damage report contains three royalty calculations. The first calculates a reasonable royalty of $453,000 based on the actual number of infringing collators sold by the defendant multiplied by a retail sale price of $2500 per unit, to which a royalty rate of 10% is applied.

The second calculation arrives at a royalty of $2,739,500, based on projected collator sales of 10,958 units – again multiplied by a $2500 per unit price, to which a 10% royalty rate is applied.

The third calculation arrives at a royalty of $13,149,600. This amount is based on projected sales of 10,958 collator *and copier* units at a total retail sales price of $12,000 for the two machines. Once again, a 10% royalty rate is applied.

The Court concludes that the second of these royalty calculations is legally invalid and inadmissible. On April 4, 1986, the Court ruled that the damages for patent infringement must be based on the actual number of infringing sales. The second royalty calculation directly violates that order by calculating a royalty according to a sales volume six times greater than the actual number of infringing sales.

The Court further concludes that the third royalty calculation is also legally invalid and inadmissible. This royalty calculation is based on projected volumes rather than actual volumes, and therefore violates the Court's April 4 order. The third calculation is based on the inclusion of copier revenues in the royalty base. On June 4, 1986, the Court ruled that copier revenues could not be included in the royalty base unless plaintiff could prove at trial that it was selling, or anticipated selling, copiers as well as collators. Plaintiff has conceded that it cannot meet that requirement and does not intend to attempt to do so at trial. The third royalty calculation is also legally invalid and inadmissible in that it is arrived at on the basis of the $20,500,000 settlement negotiated by the plaintiff in a prior lawsuit against IBM. Repeatedly, the Court has informed the plaintiff that this settlement agreement cannot be the basis for a damage award in this case.

At the July 14 hearing on defendant's motion for a preclusionary order, plaintiff asserted that it should still be permitted to offer general background testimony from its expert, even though all but one of his damage claim calculations concededly violate the Court's previous Orders. Plaintiff's counsel argued that the plaintiff himself should be permitted to offer an opinion concerning the reasonable royalty to be awarded as damages.

On May 22, 1986, defendant took the deposition of Mr. Snellman, the named plaintiff, and attempted to discover

what opinions he had, if any, concerning the damages to be awarded at the retrial. The Court has reviewed the relevant portions of Mr. Snellman's deposition, and it is clear that Mr. Snellman's opinion concerning the reasonable royalty damages is no more admissible than Mr. Stone's.

Mr. Snellman expressed the opinion that his damages should be some figure in excess of $20 million, based on the fact that he settled his lawsuit with IBM for that amount. As indicated above, the IBM settlement cannot be the basis for a damage award in this case. Moreover, the damage amount, or at least the unspecified range of damage amounts, in Mr. Snellman's opinion are at least $8 million in excess of what the Court already found to be excessive and a miscarriage of justice in granting a new trial in this case. The Court concludes, therefore, that Mr. Snellman's testimony does not provide an admissible basis for a damage award in this case.

There is no basis for permitting the plaintiff to attempt now to perform new damage calculations in an effort to generate new admissible evidence. The plaintiff has failed to meet four scheduled deadlines for provision of its damage claim information and the deposition of its designated expert – two of them set by Court Order. The plaintiff has known since January, 1985 that a retrial would occur on the issue of patent damages and has known since December, 1985 that the retrial would occur in June or July, 1986. Pursuant to Rules 16(f) and 37(b)(2)(B), the Court concludes that plaintiff should be precluded from offering any damage claim evidence other than that already disclosed to defendant.

Among the damage claim evidence identified by the plaintiff through discovery, the only damage calculation that complies with the Court's orders is plaintiff's calculation of a reasonable royalty on the basis of defendant's actual sales of infringing collators, to which a royalty rate of 10% was applied by

plaintiff's expert. The royalty thus calculated by plaintiff's expert is $453,000. Accordingly,

IT IS ORDERED that plaintiff is precluded from offering damage calculations at trial in excess of the only admissible reasonable royalty calculation provided by plaintiff to date: $453,000.

Dated: July 15, 1986.

/s/ William A. Ingram
U.S. District Court for the
Northern District

Note: This opinion will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent. The decision will appear in tables published periodically.

United States Court of Appeals for the Federal Circuit

Appeal No. 85-2183
USDC 82-6188 WAI

DONALD L. SNELLMAN d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee

DECIDED: July 22, 1986

Before MARKEY, *Chief Judge*, BALDWIN, *Circuit Judge*, and MILLER, *Senior Circuit Judge*.

MILLER, *Senior Circuit Judge*.

DECISION

We *affirm* the decision of the United States District Court for the Northern District of California[1] granting Ricoh's motion for JNOV on the issue of breach of contract by Ricoh.[2]

OPINION

We are satisfied that there was no substantial evidence on which a jury could have based a verdict of breach of contract by Ricoh. Specifically, we do not agree with Norfin that there is evidence from which a reasonable jury could have concluded that Norfin had grounds for insecurity, which is required by Wash. Rev. Code § 62A.2-609(1) before a contracting party may demand assurances of performance. Norfin's argument that its failure to ship the prototype was reasonable because it feared Ricoh would misappropriate the technology is specious. A court cannot permit a party to impute baldly to another an illegal motive as a defense to its failure to perform a condition precedent to a contract. Moreover, if misappropriation had been Ricoh's purpose, Ricoh could have obtained the technology when performance of the contract had begun or when the patent on the technology issued.

By requesting a "more firm" manufacturing projection (*i.e.*, a larger order), Norfin demanded more than is permitted a seller under a requirements contract, which is not definite, and its

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[1] *Snellman d/b/a Norfin v. Ricoh Co.*, No. C-82-6188-WAI (SJ) (N.D. Cal. filed Jan. 22, 1985).

[2] The case before the district court included the issue of infringement by Ricoh of Norfin's patent as to which the jury found for Norfin and awarded damages. The court granted a new trial with respect to damages. It denied a new trial on the infringement issue.

refusal to ship the prototype collator was nothing less than an attempt to force Ricoh to renegotiate the contract.

Finally, as a party to a valid development contract, Ricoh had the right to purchase only goods for which it had contracted. Norfin does not explain how Ricoh was to be ensured that Norfin's collator performed in conformance with the contract specifications if it could not examine one before accepting those for which it had contracted.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN, d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104

Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-chome
Minato-ku, Tokyo 107, JAPAN

Defendant.

No. C-82-6188-WAI(SJ)

JUDGMENT

IT IS ORDERED AND ADJUDGED that plaintiff be awarded the sum of $453,000 (Four Hundred Fifty-Three Thousand Dollars) as a reasonable royalty for infringement of plaintiff's '254 patent; and

IT IS FURTHER ORDERED AND ADJUDGED that plaintiff be awarded the sum of $287,767 as prejudgment interest on $453,000 at the rate of 12% per annum, compounded quarterly, from the time of defendant's sales of the infringing device to the date of this judgment. On the basis of the foregoing damage and prejudgment interest awards,

IT IS ORDERED AND ADJUDGED that plaintiff be awarded the total sum of $740,767, on its claim for damages for patent infringement.

FOR THE COURT
William L. Whittaker, Clerk

Dated: 5/26/87

By /s/ James M. Waggener

United States Court of Appeals
for the Federal Circuit

OPINION ANNOUNCING JUDGMENT OF THE COURT

OPINION FILED AND JUDGMENT ENTERED: NOV 25 1988

The attached opinion announcing the judgment of the court in your case was filed today. The judgment was also entered pursuant to Rule 36.

Costs may be recoverable under Rule 39 or as the court may have directed in the opinion. A party entitled to costs is provided with a form for that purpose with this notice. Costs when taxed are payable to the party awarded its costs. If costs are awarded to the government, they should be paid to the Treasurer of the United States. Payment should be made to counsel for the party awarded costs or, if the party is not represented by counsel, to the party pro se. Costs should be paid promptly.

If the court also imposed monetary sanctions, they are payable to the opposing party unless the court's opinion provides otherwise. Sanctions should be paid in the same way as costs.

FRANCIS X. GINDHART
Clerk

United States Court of Appeals for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,

Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,

Defendant/Cross-Appellant,

James F. Davis, Howrey & Simon, of Washington, D.C., argued for plaintiff-appellant. *John Lockie* and *Karen Wuest*, Metzger & Shadyac, of Washington, D.C., were on the brief for plaintiff-appellant.

Gerald W. Griffin, Cooper & Dunham, of New York, New York, argued for defendant/cross-appellant. *Preston Moore* and *Robert D. Mullaney*, Morrison and Foerster, of San Francisco, California were on the brief for defendant/cross-appellant. Also on the brief were *Arthur I. Neustadt* and *Richard D. Kelly*, Oblon, Fisher, Spivak, McClelland and Maier, P.C., of Arlington, Virginia.

Appealed from: U.S. District Court for the Northern District of California

Judge Ingram

United States Court of Appeals for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,

Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,

Defendant/Cross-Appellant.

DECIDED: November 25, 1988

Before MARKEY, *Chief Judge*, FRIEDMAN, *Circuit Judge*, and BALDWIN, *Senior Circuit Judge*.

FRIEDMAN, *Circuit Judge*.

The questions in this case, on appeal and cross-appeal from the United States District Court for the Northern District of California, are whether the district court erroneously (1) denied a motion for judgment n.o.v. on the jury finding that the defendant Ricoh Co., Ltd. (Ricoh) infringed the appellant Norfin's patent, and (2) held, in connection with setting aside the jury award of damages and granting a new trial on that issue, that certain evidence relating to damages had been improperly admitted. We (1) affirm the denial of judgment n.o.v. on

infringement and (2) vacate the ruling on damages and remand for further proceedings on that issue.

I

The appellant Norfin, of which Mr. Snellman is the sole proprietor, manufactures and sells paper sorting, collating, and binding products used in photocopying and offset lithography. Mr. Snellman is co-inventor of U.S. Patent No. 3,414,254 (the '254 patent) for an improved paper sorter. The '254 paper sorter has fewer moving parts than most sorters, which makes it more reliable and cheaper to manufacture. The '254 patent has been commercially successful and has been the subject of previous litigation.

In a suit by Norfin against IBM, the '254 patent was held valid and infringed. *Norfin, Inc. v. International Business Machs. Corp.*, 453 F. Supp. 1072, 199 USPQ 57 (D. Colo. 1978), *aff'd*, 625 F.2d 357, 207 USPQ 737 (10th Cir. 1980). As a result of that suit, IBM paid Norfin a lump sum royalty of $20.5 million, which included a post-litigation license under the '254 patent. That amount was agreed to by the parties before the final decision of the court of appeals, in an agreement that dealt with the various possible outcomes of the litigation.

Norfin granted Ricoh a license under the '254 patent for one of the Ricoh copiers; Norfin ordinarily did not license its patents. When Norfin refused to license the '254 patent for use with other Ricoh copiers, Ricoh and Norfin then entered into a sales and purchase agreement under which Norfin would manufacture paper sorters for use with Ricoh's new mid-to-high speed copiers.

Ricoh's engineers visited Norfin a number of times and observed each phase of Norfin's development of the sorters. When Mr. Snellman decided to redesign the sorter prototype,

which would delay Ricoh's preparations for a trade show, Ricoh notified Norfin that it would rebuild its own prototypes for the trade show. Norfin did not object but requested that the prototype or drawings be sent to it.

Following Ricoh's successful demonstration of its copiers at the trade show, Norfin finished its prototype sorter and tested it with Ricoh's copiers. Ricoh engineers were present at the tests and photographed the Norfin prototype.

Ricoh continued to develop its own sorter. After receiving an opinion from counsel that the Ricoh sorter would not infringe the '254 patent, Ricoh in September 1980 implemented a plan to manufacture and market its own sorters.

Due to Norfin's delays in shipping a finished collator, Ricoh terminated the purchase agreement and fitted its copiers with its own collators.

After observing and inspecting Ricoh collators at a trade show in Germany, Norfin advised Ricoh that "authorization to manufacture this equipment and/or to show it has not been given by my company. To the contrary, those rights are exclusively the property of Norfin." After further correspondence, Norfin filed the present infringement suit against Ricoh.

The case was tried to a jury, which found that Ricoh had infringed the '254 patent and awarded damages of $12,000,000. The jury further found that Ricoh had breached its contract with Norfin and awarded contract damages of $2,900,000.

The district court granted JNOV, or alternatively a new trial, on the contract issue and on the issue of damages for infringement, and denied a new trial or JNOV on infringement. (We affirmed the JNOV on the contract issue in an earlier, unpublished opinion. *Snellman v. Ricoh Co., Ltd.,* No. 85-

2183, July 22, 1986.) The court ruled that certain evidence relating to damages had been improperly admitted, and concluded that "[t]he verdict of $12,000,000 constitutes a miscarriage of justice in the opinion of this court."

Both parties began preparing for a second trial on the issue of damages for patent infringement. During discovery, the court issued an order precluding Norfin from introducing certain evidence.

> Among the damage claim evidence identified by the plaintiff through discovery, the only damage calculation that complies with the Court's orders is plaintiff's calculation of a reasonable royalty on the basis of defendant's actual sales of infringing collators, to which a royalty rate of 10% was applied by plaintiff's expert. The royalty thus calculated by plaintiff's expert is $453,000.

The court barred Norfin from introducing the earlier IBM agreement or developing new damage estimates. It held that one of Norfin's calculations was

> legally invalid and inadmissible in that it [was] arrived at on the basis of the $20,500,000 settlement negotiated by the plaintiff in a prior lawsuit against IBM. Repeatedly, the court has informed the plaintiff that this settlement agreement cannot be the basis for a damage award in this case.
>
> There is no basis for permitting the plaintiff to attempt now to perform new damage calculations in an effort to generate new admissible evidence. The plaintiff has failed to meet four scheduled deadlines for provision of its damage claim information and the deposition of its designated expert – two of them set by Court Order. The

> plaintiff has known since January, 1985 that a retrial would occur on the issue of patent damages and has known since December, 1985 that the retrial would occur in June or July, 1986. Pursuant to Rules 16(f) and 37(b)(2)(B), the Court concludes that plaintiff should be precluded from offering any damage claim evidence other than that already disclosed to defendant.

As a result of these rulings, Norfin agreed to a judgment of $740,647 ($453,000 plus prejudgment interest), which merged with the earlier judgment that Ricoh had infringed the '254 patent. Both parties have appealed from this judgment. Ricoh raises the infringement issue on its cross-appeal, and Norfin raises the damages issue on its appeal. Norfin's appeal challenges the underlying predicate of the limitation of its damages to $740,647, namely the court's ruling that certain evidence relating to damages was improperly admitted and the court's setting aside the jury verdict on damages and ordering a new trial on that issue.

II

Ricoh alleges that the district court erred in denying its motion for judgment n.o.v. on patent infringement.

> Where, as here, the overall question of infringement was answered by a jury and the losing party's motion for JNOV was denied, an appellate court's review of the denial is limited. The appellate court is permitted to review only the sufficiency of the evidence, a question of law. Such a review must be conducted within a set of guidelines which include: (1) a consideration of all the evidence, (2) in a light most favorable to the non-moving party, (3) drawing all reasonable inferences favorable to that party, (4) without determining the credibility of the witnesses, and (5) without substituting

> the court's choice for that of the jury between conflicting elements in the evidence.
>
> To obtain a reversal, [Ricoh] (the moving party below) must persuade us that either (1) the jury's findings were not supported by substantial evidence or (2) those findings cannot support the legal conclusions which necessarily were drawn by the jury in forming its verdict. If, however, there was substantial evidence of such quality and weight that reasonable and fair-minded men in the exercise of impartial judgment could reasonably return a verdict for the non-moving party, then the denial of the JNOV was correct.

McGill Inc. v. John Zink Co., 736 F.2d 666, 672, 221 USPQ 944, 948 (Fed. Cir.), *cert. denied,* 469 U.S. 1037 (1984) (citations omitted).

The determination of infringement is a two-step process. First, the meaning of the claim alleged to have been infringed must be determined. Second, the alleged infringing device must be compared to the claims to determine whether the claims cover the device, either literally or under the doctrine of equivalents. *Mannesmann Demag Corp. v. Engineered Metal Prods. Co.*, 793 F.2d 1279, 1282, 230 USPQ 45, 46 (Fed. Cir. 1986).

The parties agree that the issue of infringement was limited to claim 1 of the '254 patent. Ricoh has failed to show that the jury's finding that the Ricoh device infringes claim 1 rests upon a misrepresentation of the claim or is not supported by substantial evidence. *McGill,* 736 F.2d at 672, 221 USPQ at 948.

Claim 1 reads:

[a] In combination with a receiver having an upright column of spaced shelves,

[b] substantially vertically moving sheet conveyor means opposite said receiver for conveying sheets in a substantially vertical course,

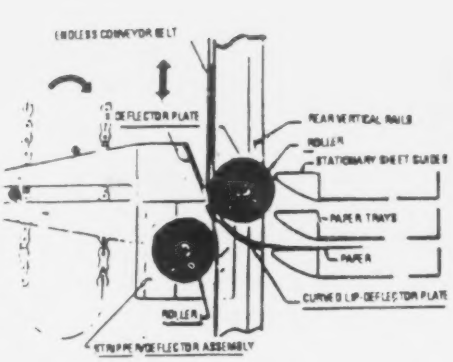
[c] a movable sheet deflector assembly operatively associated with said conveyor means,

[d] means mounting said deflector assembly for movement along said conveyor,

[e] means for positioning said deflector assembly at predetermined positions along said conveyor for deflecting moving sheets therefrom into selected ones of said shelves, and

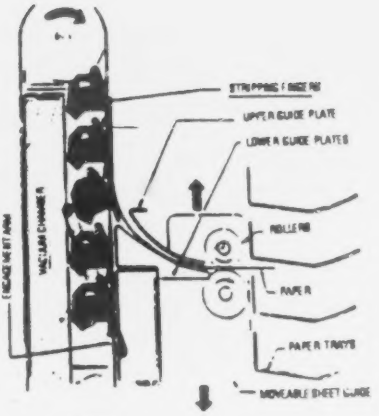
[f] sheet retaining means cooperating with said conveyor means for holding said moving sheet thereto for conveying to the position at which it is deflected.

Norfin's commercial embodiment of the patented invention and Ricoh's collator are shown below:



SNELLMAN PATENT

NO. 3,414,254



RICOH

CS2010 SORTER

Both devices collate paper by deflecting it from its vertical path through a guide and into various bins. In prior art patents (McGalliard No. 2,661,209 and Pearson No. 3,273,882), each bin had its own adjacent "finger" to deflect the paper through its own guide and into the bin. In the '254 patent, however, the "sheet deflector assembly" moves along the vertical path and guides the sheets into the bins.

The basic dispute between the parties is over the meaning of the terms "movable sheet deflector assembly" and "means for positioning said deflector assembly at predetermined positions along said conveyor for deflecting moving sheets therefrom into selected ones of said shelves." The argument essentially is whether the "finger" that "deflect[s] moving sheets [from the conveyor]" must be a single element attached to the "sheet deflector assembly."

Norfin contends that the Ricoh collator includes "a movable sheet deflector assembly." Ricoh responds that "Norfin cannot sustain the position that an 'assembly' can mean a guide unit and trigger arm *plus* deflector fingers that have no permanent or continuous connection to the guide unit and trigger arm" (emphasis in original). In other words, Ricoh argues that because its "fingers" are not attached to its "moveable sheet guide unit," but rather are actuated by its engagement arm, its device does not infringe.

Although claim interpretation is a question of law, *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1270, 229 USPQ 805, 811 (Fed. Cir. 1986), *cert. denied*, 107 S. Ct. 875 (1987), expert testimony is admissible to explain the meaning of technical terms in the claims and to give an opinion on the ultimate question of infringement. *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1545, 3 USPQ2d 1412, 1417 (Fed. Cir. 1987); *McGill*, 736 F.2d at 675, 221 USPQ at 950. The jury heard expert testimony that claim 1 does not require that a single element must alter the path of the paper or that the element must be attached to the movable sheet deflector assembly.

Norfin's patent expert, Mr. Dunner, testified that

> what the Snellman claim 1 apparatus has is an element which moves vertically up and down, which has a deflecting function and which also serves to trigger the release of paper from a vertical conveyor belt. That is exactly what the Ricoh device has. Claim 1 is broad enough to cover that literally or otherwise.

Mr. Dunner further stated that "[a]s [the Ricoh device's] engagement arm hits these little fingers, the movement . . . serves to move these fingers . . . out right direct toward the bins." In other words, the engagement arm, which is a part of

the movable sheet guide, deflects the paper from the vertical conveyor belt by tripping each of the fingers.

Since the positioning element of the claim is in means-plus-function form, the specification must be looked to to determine the means claimed to perform the function. 35 U.S.C. § 112 (1982); *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 975, 226 USPQ 5, 8 (Fed. Cir. 1985); *D.M.I., Inc. v. Deere & Co.*, 755 F.2d 1570, 1574, 225 USPQ 236, 238 (Fed. Cir. 1985). The specification states that "[a] further object is to provide an improved collator device which employs a *single deflector member* for rapidly guiding the sheets in succession to a predetermined group of receiver trays or sorting stations with provision for automatic control means for initially indexing the deflector member and for recycling the deflector member upon completion of a sorting cycle or run," and that "[d]uring [the paper's] downward course on the vertical portion of the conveyor, the sheets are deflected *by the distributor mechanism* onto the respective shelves of the receiver by means of *an* indexing deflector assembly 16, shown most clearly in FIGS. 2 and 3, which includes the deflector plate 17" (emphasis added).

Accepting Mr. Dunner's interpretation of the claim and his expert conclusion on infringement, as the jury obviously did, and in view of the language of the specification, there was substantial evidence to support the jury verdict of infringement. *McGill,* 736 F.2d at 675, 221 USPQ at 950-51.

III

A. If the only issues before us were the propriety of the district court's setting aside the jury verdict and ordering a new trial on damages, it is doubtful whether there would be an appealable final judgment. Only "[u]nder certain circumstances the appellate court may enquire into the action of the trial court

on a motion for a new trial." *Fairmount Glass Works v. Coal Co.*, 287 U.S. 474, at 482 (1932). We have held similarly, that an order for *de novo* consideration is not appealable. *Cabot Corp. v. U.S.*, 788 F.2d 1539 (Fed. Cir. 1986).

Here, however, during discovery for the new trial on damages, the district court limited the evidence that Norfin could introduce. As a result, Norfin could show damages of only $740,647. No factual dispute remained for trial, and Norfin properly acquiesced in the entry of judgment for that amount. Norfin thereby obtained a final appealable judgment. This is not a situation, as in remittitur, where the judge has entered judgment pursuant to an agreement by the plaintiff to reduce the jury verdict. *Donovan v. Penn Shipping Co.*, 429 U.S. 648 (1977). To the contrary, Norfin consistently maintained that it was entitled to the jury verdict, which it believed was based on properly admitted evidence.

Since Norfin did not agree with the court's evidentiary rulings, it may now appeal the final judgment, reflecting those rulings, that awarded it only $740,647. Norfin's acquiescence in that judgment was designed to obtain an early reviewable order and did not waive its objections to the court's evidentiary rulings. When a plaintiff cannot prevail under the evidence it has presented, it need not proceed to trial to preserve its appeal. As the Supreme Court has noted, a plaintiff may consent to a final judgment to enable it to appeal an otherwise interlocutory order:

> The plaintiffs did not consent to a judgment against them, but only that, if there was to be such a judgment, it should be final in form instead of interlocutory, so that they might come to this court without further delay.

Thomsen v. Cayser, 243 U.S. 66, at 83 (1916).

B. Setting aside the jury award of $12,000,000 as "a miscarriage of justice" and ordering a new trial on the damages issue, the district court ruled that (A) an exhibit showing the projected sale of the Ricoh collator and the testimony of Mr. Stone, Norfin's expert, regarding potential sales, "were irrelevant to the issue of damages and should have been either excluded or appropriately limited by admonition," and (B) "the admission of the IBM-Norfin agreement as a comparable license agreement was probably error in light of the unique circumstances surrounding the agreement."

1. In determining a reasonable royalty, the jury considered evidence that Ricoh expected and intended to manufacture and distribute 40,000 to 50,000 infringing machines in the United States. This evidence, consisting of a document projecting Ricoh's anticipated sale and expert testimony relating to those calculations, was relevant and proper in determining a reasonable royalty.

Ricoh did not object to an instruction that directed the jury to calculate damages "based upon or measured by the expectations of the parties at the time of the infringement." The jury justifiably could have calculated a lump sum royalty based on Ricoh's expected sales, even though the evidence relating to such sales was not limited to "the date of first infringement." *Cf. TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899-900, 229 USPQ 525, 527-28 (Fed. Cir.), *cert. denied*, 107 S. Ct. 183 (1986) (district court did not abuse its discretion in using a pre-infringement, internal memorandum of projected profits to arrive at a reasonable royalty in part because the infringer "used the figures in the memorandum in deciding whether to manufacture and market the infringing device").

Ricoh apparently contends that because evidence of its sales forecasts projecting sales of only 3,150 units was introduced at trial and because that projection accorded with the forecast in the

Ricoh-Norfin "Sales and Purchase Agreement," this number correctly reflected Ricoh's anticipated sales. As we noted in *TWM*, however, "[t]he [finder of fact] thoroughly considered and weighed the Dura memorandum, and this court may not reweigh it. 'Determining the weight and credibility of the evidence is the special province of the trier of fact.'" *TWM*, 789 F.2d at 900 (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 856 (1982)). Here, the jury considered both sales forecasts and accepted that of Norfin. The jury was authorized to do so. *Inwood*, 456 U.S. at 856.

2. The district court did not explain why it concluded that "the admission of the IBM-Norfin agreement as a comparable license agreement was probably error," although it stated in subsequently limiting the evidence Norfin could introduce at the retrial on damages that "this settlement agreement cannot be the basis for a damage award in this case." Perhaps the district court was invoking the rule that license agreements which are "an offer to settle a 'claim' (patent infringement) which was then in dispute, both as to validity and amount," may be inadmissible under Fed. R. Evid. 408. *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1556, 218 USPQ 481, 485 (Fed. Cir. 1983).

In this case, however, the Norfin-IBM agreement was not an attempt to resolve the dispute over infringement or to avoid litigation. *See, e.g., Rude v. Westcott*, 130 U.S. 152, 164 (1889) ("The avoidance of the risk and expense of litigation will always be a potential motive for a settlement."). Rather, the negotiated license would become effective only if the appellate litigation ultimately resulted in IBM's liability. The agreement properly was admitted into evidence, and the jury was justified in considering it in determining a reasonably royalty.

Although the jury awarded damages equal to more than four times Ricoh's total sales, we cannot say that the award was "a

miscarriage of justice" in view of the $20.5 million paid by IBM for a license under the '254 patent and Ricoh's sales forecast of 40,000 to 50,000 copiers. *See Radio Steel & Mfg. Co. v. MTD Prods., Inc.*, 788 F.2d 1554, 1557, 229 USPQ 431, 433 (Fed. Cir. 1986) (in upholding a royalty rate which exceeded actual profits the court stated: "a reasonable royalty, however, is based not on the infringer's profit, but on the royalty to which a willing licensor and a willing licensee would have agreed at the time of infringement").

C. The result of our ruling on the admissibility of the damages evidence is that the judgment of the district court awarding Norfin only $740,647 cannot stand. We shall vacate that judgment and remand the case to the district court for further proceedings on the damages issue. The district court has broad discretion in conducting those proceedings. Among other things, the court may conduct a new trial on damages in accordance with our rulings on the evidence admissible on that issue or may reinstate the jury verdict.

CONCLUSION

The denial of Ricoh's motion for judgment n.o.v. on the issue of patent infringement is affirmed, and to that extent the judgment of the district court is affirmed. The judgment of the district court is vacated insofar as it limited the damages to $740,647, and the case is remanded to that court for further

proceedings on the damages issue in accordance with this opinion.

COSTS

Costs to appellant Snellman.

AFFIRMED IN PART
AND
VACATED AND REMANDED IN PART

Note: This Order has not been prepared for publication in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,
Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,
Defendant/Cross-Appellant.

Before MARKEY, *Chief Judge,* FRIEDMAN, *Circuit Judge,* and BALDWIN, *Senior Judge.*

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

FOR THE COURT

February 2, 1989

/s/ Francis X. Gindhart
Clerk

cc: John Lockie
Preston Moore

Note: This Order has not been prepared for publication in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,
Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,
Defendant/Cross-Appellant.

ORDER

A suggestion for rehearing in banc having been filed in this case, and a response thereto having been invited by the court and filed,

UPON CONSIDERATION THEREOF, it is

ORDERED that the suggestion for rehearing in banc be, and the same is, declined.

Judge Nies would rehear the case in banc.

FOR THE COURT

March 6, 1989

/s/ Francis X. Gindhart
Clerk

cc: John Lockie
Preston Moore

Supreme Court, U.S.
FILED
MAY 26 1989
JOSEPH F. SPANIOL, JR.
CLERK

No. 88-1773

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,
Petitioner,

v.

DONALD L. SNELLMAN d/b/a NORFIN,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

BRIEF FOR THE RESPONDENT IN OPPOSITION

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WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

QUESTION PRESENTED

Whether a jury in a patent infringement action, given correct instructions to which no objection was made, could award a lump sum royalty of $12 million as "damages adequate to compensate for the infringement" under 35 U.S.C. § 284 based upon a record which included, *inter alia*, evidence of (a) the infringer's anticipated unlawful sales and (b) a license royalty of $20.5 million paid on the same patent by another infringer.

RULE 28.1 STATEMENT

Donald L. Snellman d/b/a Norfin is a sole proprietorship.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

No. 88-1773

RICOH COMPANY, LTD.,
Petitioner,

v.

DONALD L. SNELLMAN d/b/a NORFIN,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF FOR THE RESPONDENT IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals vacating the district court's limitation of damages and remanding this case for further proceedings (Pet. App. 27a-41a) is reported at 862 F.2d 283. The opinion of the district court granting a new trial on damages (Pet. App. 2a-6a) is not reported. Prior opinions and orders of the district court (Pet. App. 11a-14a, 15a-19a) are also unreported.

JURISDICTION

The judgment of the court of appeals was entered on November 25, 1988. A petition for rehearing was denied on February 2, 1989 (Pet. App. 42a-43a). The petition

for a writ of certiorari was filed on May 2, 1989. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATEMENT

The petition for a writ of certiorari seeks this Court's interlocutory review of a typical and ordinary patent infringement case. Petitioner, the infringing party, disappointed with a jury verdict of liability and damages for patent infringement, bases its petition on strained characterizations of the opinion below.

Respondent submits that the Federal Circuit applied the law of patent damages exactly as required by the patent damage statute (35 U.S.C. § 284) and the many court decisions that have construed and applied the statute. The Federal Circuit's decision does not conflict with any decision of this Court, or of any other court of appeals or district court, and petitioner does not contend that the judgment below conflicts with the holding of any prior case. In short, this case raises no novel issue of law and does not warrant review by this Court.

1. Respondent, Donald Snellman, d/b/a Norfin ("Norfin") was awarded U.S. Patent No. 3,414,254 for his improved collator for use with photocopying machines. Consistent with its statutory right to exclusivity (35 U.S.C. § 154), Norfin chose to be the sole manufacturer and seller of the patented collator rather than to grant licenses under the patent to others. Accordingly, Norfin rejected license requests from petitioner Ricoh Company, Ltd. ("Ricoh"). Despite the absence of a license, two companies, IBM and Ricoh, made collators utilizing the '254 patent without Norfin's permission and Norfin sued each of these infringers. Norfin ultimately granted IBM a lump-sum license for which IBM paid Norfin $20.5 million.

2. This petition arises out of Norfin's infringement suit against Ricoh. Following jury trial in the United

States District Court for the Northern District of California on liability and damages, the jury found the patent valid and infringed and assessed damages at $12 million. (Pet. App. 1a). The jury had before it damage calculations and evidence from both parties. Norfin's evidence addressed those factors that would have affected a hypothetical negotiation between a willing licensor and willing licensee and emphasized an internal Ricoh document showing that petitioner anticipated sales of 40,000 to 50,000 machines with infringing collators (Pet. App. 38a). Norfin's evidence also included the IBM-Norfin lump sum royalty agreement of $20.5 million for infringement of the same patent. The jury instructions on damages—to which petitioner did not object—correctly and carefully informed the jury's deliberations and charted the various options available to the jury.

Because the jury instructions on damages are pivotal to petitioner's challenge to the decision below, we set them out verbatim in Appendix A, *infra* ("App. A") and summarize them here:

1. Compensation is called "damages" and under the patent law is that amount "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer". 35 U.S.C. § 284.

2. "Reasonable royalty" is defined as the price or rate that a hypothetical buyer or licensee would have paid and a hypothetical seller or licensor would have taken for the patent rights in a hypothetical negotiation with neither party compelled or coerced.

3. A "reasonable royalty" may be

   (a) a percentage of infringer's sales or

   (b) a lump sum amount (paid-up license).

4. Factors to consider in deciding to award "percentage of infringer sales" or "lump sum" amount include

(a) royalties paid for comparable licenses,

(b) patentee's policy not to license at all or license under special conditions to preserve patent exclusivity, and

(c) anticipated use by the infringer.

5. If damages are to be measured by a "lump sum" amount (or paid-up license), then a "reasonable royalty" should not be calculated by actual sales or by events occurring after the infringement; rather the calculation is based upon expectations of the parties at the time of infringement.

6. If damages are to be based upon a "percentage of infringer sales", then a "reasonable royalty" should be calculated upon the actual infringing sales made in the United States.

Petitioner moved for post-trial relief from the verdict. The district court granted petitioner's motion for a new trial on the issue of damages. It ruled that the admission into evidence of the $20.5 million IBM-Norfin agreement was "probably error" and that certain of petitioner's sales projection figures for the infringing devices "were irrelevant" and "should have been either excluded or appropriately limited by admonition" (Pet. App. 6a). Over Norfin's objections, the district court refused to permit such evidence at any new trial and entered an order precluding Norfin "from offering damage calculations at trial in excess of . . . $453,000." (Pet. App. 19a). Consequently, Norfin consented under protest to entry of judgment of $453,000 in damages (based solely upon the number of infringing devices sold) plus prejudgment interest of $287,767, in order to pursue an appeal on the damages issues.

3. On appeal, the Federal Circuit affirmed the judgment holding petitioner liable for patent infringement, but vacated the damages judgment and remanded for

further proceedings.[1] In essence, the court of appeals held that the district court had done it right the first time, *i.e.*, there was no error in the jury trial and, therefore, no grounds upon which the district court could set aside the jury's verdict.

With respect to evidence of petitioner's projected sales of 40,000-50,000 infringing machines, the court of appeals held that such evidence was "relevant and proper in determining a reasonable royalty" (Pet. App. 38a). Moreover, the court observed (*ibid.*), "Ricoh did not object to an instruction that directed the jury to calculate damages 'based upon or measured by the expectations of the parties at the time of infringement,'" and, therefore, "[t]he jury justifiably could have calculated a lump sum royalty based on Ricoh's expected sales. . . ."

In response to Ricoh's challenge to its own sales forecast of 40,000-50,000 infringing machines upon which Norfin relied in its damages case, the court noted that both sides had placed before the jury evidence of Ricoh's anticipated sales of infringing machines, and that "the jury considered both sales forecasts and accepted that of Norfin." (Pet. App. 39a) "The jury was authorized to do so," the court concluded (*ibid.*), relying on this Court's statement in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 856 (1982), that "[d]etermining the weight and credibility of the evidence is the special province of the trier of fact."

With respect to Norfin's $20.5 million royalty agreement with IBM, the court of appeals observed that "[t]he district court did not explain why it concluded "that the admission of that agreement into evidence was "'probably error'" (Pet. App. 39a). After considering petitioner's arguments on this point, the court of appeals

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[1] The petition for a writ of certiorari raises no issue relating to Ricoh's liability for patent infringement. Accordingly, our discussion will focus on damages issues only.

held that the Norfin-IBM agreement "properly was admitted into evidence and the jury was justified in considering it in determining a reasonable royalty" (*ibid.*).

In light of its rulings that Norfin's evidence was properly admitted at trial, the court of appeals held that the district court's rejection of the jury verdict could not stand. Accordingly, the Federal Circuit vacated the judgment limiting damages to $453,000 plus interest and remanded the case for further proceedings with the following instructions:

> The district court has broad discretion in conducting those proceedings. Among other things, the court may conduct a new trial on damages in accordance with our rulings on the evidence admissible on that issue or may reinstate the jury verdict.

(Pet. App. 40a).

4. The proceedings on remand are currently underway in the district court. On March 16, 1989, Norfin moved for reinstatement of the jury verdict on damages; petitioner has moved for a new trial. Both motions are presently *sub judice* in the district court.

ARGUMENT

THE INTERLOCUTORY JUDGMENT OF THE COURT OF APPEALS IS CORRECT AND DOES NOT CONFLICT WITH ANY OTHER APPELLATE DECISION

The decision below rests on the wholly unexceptional proposition that in calculating damages in a patent infringement case, the trier of fact may consider evidence of the infringer's projected sales of the infringing product and of a royalty agreement with another infringer of the same patent. The submission of such evidence to a properly instructed jury—and in this case, petitioner made no objection to the jury instructions—surely does not warrant review by this Court.

1. There is no merit to petitioner's contention that the Federal Circuit's decision is inconsistent with the "rea-

soning" of *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964) ("*Aro II*"). First, *Aro II* is not relevant to the determination of a "reasonable royalty" under 35 U.S.C. § 284. Second, to the extent *Aro II* addresses patent "damages," it is fully consistent with the Federal Circuit's treatment of this case.

In *Aro II*, this Court analyzed whether, under 35 U.S.C. § 284, a patentee could recover an infringer's "profits" as well as any "damages" suffered by a patentee. This Court noted that Section 284 changed the prior law under which a patentee, as compensation for infringement, could recover "damages," plus the infringer's "profits." Under Section 284, on the other hand, the patentee's measure of compensation is "damages adequate to compensate for the infringement" "in no event less than a reasonable royalty." Thus, *Aro II* held that the infringer's "profits" were not recoverable as such. *Aro II* does not instruct how to determine a "reasonable royalty" under the statute and thus does not conflict in any sense with the Federal Circuit's decision in this case.

In fact, *Aro II*'s general discussion of damages is entirely consistent with the decision below. In *Aro II*, this Court observed (377 U.S. at 507) that the "damages" a patentee may recover are defined as "compensation for the pecuniary loss he [the patentee] has suffered from the infringement, without regard to the question whether the infringer has gained or lost by his unlawful acts. *Coupe v. Royer*, 155 U.S. 565, 582 [1895]." This is precisely what the jury did here, under proper instructions, and the Federal Circuit's decision recognizes that fact.

2. Petitioner invites this Court to rule that a "reasonable royalty" *must* be based upon "actual sales or uses of the patented invention" (Pet. 3). No court has ever so ruled; the statute and its legislative history do not so require, and petitioner does not contend otherwise. Indeed, neither this Court nor any lower court has limited

a patentee's recovery to damages based solely upon the actual use made of the infringer's patented invention.

With respect to the statutory language, Section 284 requires that a prevailing "claimant" be awarded "damages adequate to compensate for the infringement", and further provides that damages may not *fall below* "a reasonable royalty for the use made of the invention by the infringer." The courts have fleshed out the statutory formulation with the objective of making the patent holder whole by putting him in the position he would have been in but for the infringement. As this Court stated in *Aro II*, 377 U.S. at 507, "[damages] have been said to constitute 'the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred,'" *citing*, *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886). Thus, "damages" may be assessed in any of a number of ways, including a patent owner's lost profits (if lost profits can be proved); an established royalty (if an established royalty exists); or a "reasonable royalty," which can take the form of a lump sum royalty payment or a running royalty depending upon the facts. In ascertaining what constitutes a "reasonable royalty", nothing in the statute or its legislative history suggests that the term "use made of the invention" was intended as a *limitation* on the manner of determining "a reasonable royalty."

Furthermore, the courts have uniformly held that royalties for "use" of patented inventions are not limited to "actual use." For example, in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), this Court recognized that patent license royalties need not be tied to actual use or sale of products under the patent. In *Automatic Radio*, patent licensor Hazeltine licensed patents to licensee Automatic Radio and a royalty was required irrespective of actual use. Automatic Radio insisted that the license agreement was unenforceable be-

cause it was a "misuse of patents" to require the licensee to pay royalties even though the patents may not be used. This Court rejected that contention (*id.* at 834):

> What it [licensee Automatic Radio] acquired by the agreement into which it entered was the privilege to use any or all of the patents and developments as it desired to use them. If it chooses to use none of them, it has nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's [Hazeltine's] continuous research.

In *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 138-39 (1969), this Court reconfirmed its holding in *Automatic Radio*:

> [I]f the licensee bargains for the privilege of using the patent in all of his products and agrees to a lump sum or a percentage-of-total-sales royalty, he cannot escape payment on this basis by demonstrating that he is no longer using the invention disclosed by the patent.

Likewise, in an analogous copyright case, this Court in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979), held that a copyright licensee can lawfully be required to pay a "flat fee regardless of the amount of use it makes of ASCAP compositions and even though many of its programs contain little or no music," (*id.* at 8), *citing Automatic Radio* and *Zenith*.

Thus, the principle that a lump sum licensee royalty is proper without regard to actual use is widely accepted and to our knowledge has never been rejected. Indeed, it is the very basis upon which patentees routinely grant licenses for lump sum royalty payments not tied to actual use. The identical principle is routinely used by the courts in the willing licensee-willing licensor analysis to determine "reasonable royalty" under the patent statute.[2]

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[2] Petitioner concedes that such lump sum awards are proper. *See* Pet. 17.

And indeed, the jury instructions in this case, to which petitioner did not object, expressly permitted the jury to make a "lump sum" or "paid-up" royalty award, not "calculated or measured by the actual sales of the machines, or by other events that occurred after the infringement; rather, the calculation is based upon or measured *by the expectations of the parties at the time of infringement.*" (App. A, *infra*, 4a-5a) (emphasis added).

Particularly well-settled and unexceptionable is the instruction that the jury consider the amount a reasonable licensor would accept for a license "at the time of infringement." *See, e.g., TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899-900 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986).[3] Here, the jury heard the parties' conflicting evidence on Ricoh's expected sales of the product (and thus, the value of a license). As the court of appeals recognized (Pet. App. 39a), the jury simply accepted Norfin's evidence and calculated a lump sum award on that basis.

In short, petitioner asks this Court to change well-accepted law and practice in the patent field and put a judicial straitjacket on the patent damages statute. This Court should decline petitioner's wholly unjustified invitation to rewrite the statute.

3. Nor is there any merit to petitioner's exaggerated recitation of the ramifications of the decision below. In an effort to elevate this routine case into a matter of significance beyond the parties, petitioner congers up a

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[3] In *TWM*, a patent damages case, petitioner, at page 4 of its petition for a writ of certiorari, No. 86-145, argued the following as a basis for granting certiorari:

> This petition will demonstrate that the Court of Appeals for the Federal Circuit has so liberalized the standards for determining damages in patent cases as to demand the intervention of this Court.

This Court denied certiorari in *TWM* as it should here.

chamber of imagined horrors: an "*in terrorem* effect on inventors" (Pet. 18), "wildly disproportionate damages for inadvertent acts of infringement" (*Id.* at 17), and "tremendous adverse impact on the orderly administration of patent litigation in the district courts" including damages based upon "imaginary elements" (*id.* at 18). The reality is far more mundane.

The Federal Circuit has simply applied well-established principles of patent damage law to the particular facts of this case. The record in this case shows that the jury had before it evidence of the patent owner's no-license policy, a post-litigation license under the same patent and under similar circumstances, and the infringer's anticipated sales activity, as well as evidence from which the jury could conclude that a lump sum royalty award was what the parties would have negotiated. Moreover, the unchallenged jury instructions are a model statement of the law of patent damages. They properly instructed the jury with respect to the willing licensor-willing licensee analysis for determining a reasonable royalty and also properly instructed the jury with respect to whether the royalty should be a lump sum payment or a payment based upon actual sales.[4] The jury evaluated the evidence in light of the instructions and reached a verdict which the Federal Circuit properly characterized as justifiable. There was no basis for granting a new trial or limiting the relevant evidence as petitioner proposes and, there-

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[4] Not only did petitioner accept without objection the jury instructions at trial, but in addition, petitioner argued the following in its motion for a new trial (C.A. App. 321):

> The jury could reasonably have decided that the hypothetical willing licensor/willing licensee would have entered into a fully paid up license, also known as a lump sum license. The jury was free to use its discretion as to what the precise royalty amount would be. . . .

Thus, petitioner's real complaint is with the jury's evaluation of the evidence, certainly not a matter for review by this Court.

fore, the court of appeals decision rests on solid ground. It does not warrant this Court's review.

CONCLUSION

The petition for a writ of certiorari should be denied.

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APPENDIX

APPENDIX A

Uncontested Jury Instructions on Damages, Appendix in Federal Circuit, pp. 306-311

Now, if you should conclude from the evidence that Ricoh did not infringe the Snellman patent, then you should proceed to consider the next cause of action, which is the one for breach of contract. If, however, you find that Ricoh did infringe the Snellman patent, either by literal or equivalent infringement, then you should proceed to determine what compensation Mr. Snellman should receive for that infringement.

We call this compensation 'damages'.

The fact that I'm about to instruct you on a measure of damages should not be considered as an indication of any view of mine as to which party is entitled to your verdict in this case. Instructions as to the measure of damages are given only for your guidance in the event that you should find in favor of the plaintiff, on the questions presented to you, by a preponderance of the evidence and in accordance with other instructions.

Under the United States patent laws the plaintiff is entitled to 'damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer'.

A 'reasonable royalty' is defined as the price or rate that a hypothetical buyer would have paid to a hypothetical seller for the rights to the patent where neither party was compelled or coerced to enter the agreement.

We refer to this definition as the 'willing buyer, willing seller' rule. In other words, considering all the factors that would have affected the bargaining process, what would a person who wanted the rights to the patent have been willing to pay and what would a person who owned the rights to the patent have been willing to accept if

neither one was forced to enter an agreement. This is the measure of a reasonable royalty.

The focus of these willing buyer, willing seller negotiations is at the time of infringement. The controlling factor is the sales or profits that the parties would have anticipated or projected at the time of the hypothetical negotiations. The hypothetical negotiations are conducted with respect to the licensing under the United States patent.

The United States patent only gives the plaintiff the right to exclude others from making, selling or using the patented invention within the boundaries of the United States. The United States does not give the patent holder any rights with respect to the manufacture, sale or use of the patented invention outside of the United States.

A reasonable royalty is often expressed as a percentage of the infringer's sales, but it can also be awarded as a lump sum amount, or in effect, as a paid-up license. You should decide, based solely on the evidence presented in this trial, whether the parties in this case would have agreed to a royalty based on a percentage of sales or as a lump sum amount.

To determine the amount of royalty damages to award, you should consider a wide range of factors that would have affected a hypothetical negotiation between a willing licensor and a willing licensee. Some of the factors which may be considered by you include the following: The royalties received by Norfin or Mr. Snellman for licensing the 254 patent which prove or tend to prove the value or worth of the patent; royalties paid by the licensee, Ricoh, for the use of other patents comparable to the 254 patent; the nature and scope of the license as exclusive or nonexclusive, as restricted or nonrestricted in terms of territory, or with respect to whom the manufactured product may be sold; Norfin's established policy and marketing program to maintain that patent monopoly

by not licensing others to use the invention, or by granting licenses under special conditions designed to preserve the monopoly; the commercial relationship between Norfin and Ricoh, such as whether they are competitors in the same territory, in the same line of business, or whether they are inventor and promoter; the effect of selling the patented specialty and promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales on his nonpatented items, and the extent of such derivative or convoyed sales; the duration of life remaining on the patent, and the length of term of other license which the parties would negotiate; the established profitability of the product made under the patent, its commercial success, its current popularity; the utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results; the nature of the patented invention, the character of the commercial embodiment as owned and produced by the licensor, and the benefits to those who have used the invention; the extent to which the infringer anticipated using or actually used the invention, and any evidence probative of the value of such use; the portion of the realizable profit that should be credited to the invention as distinguished from nonpatented elements; the manufacturing process, business risks or significant features or improvements added by the infringer; the opinion testimony of the patent holder and the licensee as to what would be a reasonable royalty; the opinion testimony of qualified experts; the amount that a licensor and a licensee would have agreed upon at the time the infringement began if both had been reasonably and voluntarily trying to reach an agreement, that is, the amount which a prudent licensee, who desired his business proposition to obtain a license to manufacture and sell a particular article embodying the patented invention, would have been willing to pay as a royalty, and yet anticipating being able to make a reasonable profit, and which amount

would have been acceptable to a prudent patentee who was willing to grant a license.

If you find, by a preponderance of the evidence, that the Snellman patent gave the Ricoh copiers their essential marketability, that is, the copiers could not reasonably have been marketed by Ricoh without the Snellman patent technology, anticipated royalty damages may be based upon Ricoh's anticipated revenues not only from the collator sales, but also from the sales of Ricoh's compatible copiers. However, if you find, by a preponderance of the evidence, that the Snellman patent did not give the Ricoh copiers their essential marketability, that is, the copier could reasonably have been marketed by Ricoh without the Snellman patent technology, then reasonable royalty damages may be based upon Ricoh's anticipated revenues only from the collator sales, but not from the sales of Ricoh's compatible copiers.

If you determine damages are to be measured by a lump sum amount or paid-up license, then a reasonable royalty should not be calculated or measured by the actual sales of the machines, or by other events that occurred after the infringement; rather, the calculation is based upon or measured by the expectations of the parties at the time of the infringement.

On the other hand, if you determine that damages are to be measured by a royalty rate on percentage of sales, then a reasonable royalty should be calculated upon the actual sales made by Ricoh in the United States.

The burden of proof as to the amount of damages rests with Mr. Snellman by a preponderance of the evidence.

It is important to note that damages need not be proven with mathematical certainty. The law provides that you shall award damages if the plaintiff establishes a reasonable basis for the award.

Supreme Court, U.S.
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No. 88-1773

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On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY TO BRIEF FOR THE RESPONDENT IN OPPOSITION

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PETITIONER'S REPLY TO BRIEF FOR THE RESPONDENT IN OPPOSITION

Respondent's opposition brief mischaracterizes the proceedings below and the question presented. Respondent also quotes from several antitrust decisions, but omits language that strikingly reinforces the conclusion that the Federal Circuit has strayed far from existing doctrine in awarding damages based on projected sales that never occurred. The extraordinary breadth of the assertions offered by respondent as justifying the Federal Circuit's decision underscores the need for this Court to grant review.

I

RESPONDENT HAS MISCHARACTERIZED THE QUESTION PRESENTED AND THE BASIS FOR THE FINAL JUDGMENT FROM WHICH RESPONDENT APPEALED

Respondent characterizes the question presented as whether projections of infringing sales are admissible as evidence in a patent damages case. Opp. at 6. The issue here, however, is whether such projections can be used instead of actual sales as a revenue base in determining what "reasonable royalty" is necessary to compensate a patentee for what was actually lost as a result of nonwillful acts of infringement. Whatever evidentiary value sales projections may have in arriving at a royalty *rate*,[1] they cannot be substituted for actual sales as the revenue *base* to which the royalty *rate* is applied. The damages awarded must be tied to the actual injury to the patentee's property rights—*i.e.*, the actual "use made of the invention by the infringer." 35 U.S.C. § 284 (1982). The Federal Circuit's decision is squarely in conflict with these principles.

Similarly, the question presented is not, as respondent suggests, whether damages should be awarded without regard to whether an infringer "gained or lost" by its "unlawful acts." Opp. at 7. Rather, the issue is whether an award of damages can be disconnected entirely from the scope, number, and extent of the unlawful acts. The logic of the Federal Circuit's decision would permit the very same award of damages as occurred at the first trial if there had never been *any* infringing sales. Respondent argued below that the first act of infringement in this case was not a sale at all, but rather a demonstration of the infringing machine at a trade show. Thus, under the Federal Circuit's opinion, respondent would be entitled to $12,000,000 (or the $24-26

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[1] Of course, projected sales may be considered as a factor affecting the royalty rate. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1131 (S.D.N.Y. 1970), *modified* and *aff'd*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). Usually, however, larger volume projections lead to a lower royalty rate, since the inventor's investment can be recovered over a larger base.

million it claimed, or more) even if Ricoh had never sold a single infringing collator—an astounding result.

Respondent's attempt to obscure the question presented is also evident in its inaccurate portrayal of the proceedings below.[2] Respondent focuses on an erroneous jury instruction given at the first trial. Of course, once it granted a new trial the District Court was not required to repeat jury instructions or rulings from the first trial.[3] Rather, it was free to conduct the second trial as if there had been no prior trial on the damages issue. *United States v. Ayres*, 76 U.S. (9 Wall.) 608, 610 (1870); *see also* 25 *Federal Procedure*, New Trial § 58.37, at 766 (L. Ed. 1984). The jury instructions from the first trial do not alter the question presented by the petition.

Moreover, the record clearly refutes the impression respondent attempts to create, that Ricoh acquiesced in an award of damages based on sales projections instead of actual sales. When the evidence of sales projections was offered in support of respondent's damages calculation Ricoh objected strenuously, stating: "[I]t is our position that the royalty applicable to the United States sales is only applicable to actual sales." (R.T. 8-1116.) Ricoh pointed out at that time that the *Panduit*,[4] *Georgia Pacific*,[5]

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[2] Respondent's assertion that there are currently two motions before the trial court is not true. Opp. at 6. The only motion before the trial court is respondent's motion for reinstatement of the excessive $12,000,000 verdict. That motion is based on respondent's position that the Federal Circuit's opinion leaves the District Court with no other option.

[3] In a ruling that was not reversed on appeal, the trial court granted a new trial on damages, based on its finding that the $12,000,000 verdict was a "miscarriage of justice." App. at 6a. Respondent chooses to omit this ruling from its recitation of the facts. Opp. at 4.

[4] *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978).

[5] *See supra* note 2.

and *Alpine Valley*[6] cases "[mean] that you take actual sales." (R.T. 8-1123 to -1123A, 8-1126.)

Respondent wishes to avoid the issue presented by the District Court's order specifically requiring that damages be tied to actual sales.[7] Following the trial court's determination that the damages verdict was a "miscarriage of justice" and the court's grant of a new trial, App. at 6a, Ricoh moved for a ruling that damages must be based on actual sales, not projected sales.[8] Contrary to respondent's characterization of the question presented, the District Court did not rule that evidence of projected sales would be inadmissible at the second trial. Rather, the District Court ruled (a) that any royalty base used to calculate a damages award for patent infringement must be based on actual infringing sales; and (b) that specific calculations performed by respondent's expert were fundamentally inconsistent with that ruling. App. at 13a, 16a-17a. The effect of the court's ruling was to limit damages to an amount reflecting Ricoh's actual infringing sales. Respondent appealed from the resulting judgment.[9]

The judgment from which respondent appealed was predicated upon the trial court's determination that damages must be based on actual sales. This fundamental measure of damages issue was squarely presented in the appellate briefs submitted to the Federal Circuit, was scrutinized at oral arguments, and was ruled upon by

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[6] *Hanson v. Alpine Valley Ski Area*, 718 F.2d 1075 (Fed. Cir. 1983).

[7] Respondent's argument fails even to mention the crucial order entered by the District Court concerning the measure of damages.

[8] Respondent's opposition to that motion never suggested that the issue could be disposed of by reference to the instructions to the jury from the first trial.

[9] The appeal to the Federal Circuit was in no way interlocutory. Thus, reversal of the Federal Circuit's decision will lead to reinstatement of the judgment based on actual sales and an end to this litigation. Moreover, the question presented here will remain central to the litigation whether the trial court reinstates the $12,000,000 verdict or holds a new trial governed by the Federal Circuit's decision.

the appellate court. Accordingly, the question presented by the petition is the question properly before this Court.[10]

II

RESPONDENT'S ARGUMENT CONFIRMS THE IMPORTANCE OF THE QUESTION PRESENTED TO PROPER ADMINISTRATION OF THE UNITED STATES PATENT LAWS

Respondent observes that the basic purpose of patent damages is to place the patent holder in the position he would have occupied but for the infringement. Opp. at 8. The Federal Circuit's opinion, however, goes far beyond placing respondent in the same position and allows respondent to recover far more than compensation for actual losses.

If no infringement had occurred, respondent would have had, at best, the opportunity to license or manufacture 1,814 more units than it actually licensed or manufactured. Respondent retained the right to utilize its patent fully, except for the units *actually sold* by Ricoh. The Federal Circuit's opinion would allow respondent both to license or manufacture units other than the ones sold by Ricoh and to receive compensation for those same other units in the form of damages. This double compensation is inconsistent with this Court's reasoning in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 510 (1964) (disallowing second recovery from contributory infringer where patentee has already recovered royalty from direct infringer).

The District Court found no precedent—"no warrant in law"—for permitting an award of damages for acts of infringement that never occurred. App. at 13a. Although respondent argues that courts "routinely" allow recovery of lump sum dam-

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[10] Even if respondent's assertions concerning the first trial were accurate, the question presented would remain unaffected. Any issue related to the correctness of the jury instruction cited by respondent was rendered moot by the trial court's determination that the jury verdict was a "miscarriage of justice" and its order granting a new trial. App. at 6a. *See supra* note 3 and accompanying text.

ages without regard to the actual extent of the infringement, it also could not find a reported case in which such an award was approved. Opp. at 9. Its assertion that no court has ever limited a patent holder's recovery to actual use is easily refuted. *See, e.g., Alpine Valley*, 718 F.2d at 1075 (lump sum royalty limited to years machines in use); *Minnesota Mining & Mfg. Co. v. Berwick Indus.*, 393 F. Supp. 1230, 1245-46 (M.D. Pa. 1975) (lump sum prorated to infringing uses), *aff'd*, 532 F.2d 330 (3d Cir. 1976). In fact, every pertinent reported decision known to the petitioner has applied the law in just this way. No court has ever held, in the face of the plain language of section 284 ("the use made of the invention by the infringer"), that "reasonable royalty" damages could be recovered for projected sales that were never made.

The unprecedented reach of the Federal Circuit's decision is demonstrated by respondent's resort to two antitrust cases for support. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), cited at page 9 of the Brief in Opposition, impeaches, rather than supports, the Federal Circuit's decision. As is evident from a portion of the Court's opinion in *Zenith* not quoted by respondent, *Zenith* expressly endorses the principle that a licensee cannot be required to pay a royalty on sales of products that make no use of the patented invention:

> [P]atent misuse inheres in a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use. Unquestionably *a licensee* must pay if he uses the patent. Equally, however, he *may insist on paying only for use*, and not on the basis of total sales, including products in which he may use a competing patent or in which no patented ideas are used at all.

395 U.S. at 139 (emphasis added). Requiring a nonwillful infringer to pay damages for sales that were never made is comparable to requiring a licensee to pay a royalty on sales of products that make no use of the patented invention.

Respondent's reliance on *Broadcast Music Inc. v. Columbia Broadcasting System*, 441 U.S. 1 (1979), and *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950),

overruled, Lear v. Adkins, 395 U.S. 653 (1969), is also misplaced. These antitrust cases do not address royalty fees or rates in the context of a damages determination. Rather, the cited portion of *Broadcast Music* addresses the charging of a flat copyright licensing fee as an indication of anticompetitive activity. Both *Automatic Radio* and *Broadcast Music* concern the acquisition of an unlimited license or privilege to use patented or copyrighted material as the licensee desires—a privilege Ricoh never received.

These cases underscore the fundamental problem presented by the Federal Circuit's decision: the hypothetical construct of a willing buyer—willing seller license negotiation cannot be applied without reference to the compensatory purpose of the reasonable damages award. As this Court noted in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), a jury in determining reasonable royalty damages "did not make a contract for the parties, but found a measure of damages." *Id.* at 649 (citation omitted). The differences between licenses, as found in commercial reality, and damages awards are clear and compelling. That which may be permitted within the freedom of contract prevailing in genuinely willing licensing negotiations cannot be equated simplistically with measuring damages under the statutory mandates that damages must be compensatory and that reasonable royalty damages are limited to the use made of the invention by the infringer. When a license provides for a lump-sum royalty, the licensee *actually obtains* the unrestricted right to make and sell as many of the patented articles as he wishes. No such right is received by the infringer, whose "taking" is limited to its actual infringing acts. Thus, a "lump sum" recovery that is not prorated to actual use attributes to the nonwillful infringer a right and privilege that it did not and could not receive and compensates the patentee for an injury to its rights that it did not and could not suffer.

Ricoh never had the right to make unlimited use of respondent's patent. In fact, respondent sought and received a temporary restraining order forbidding Ricoh from selling the infringing products. Despite all of this, the Federal Circuit's decision sanctions a damages rule that taxes Ricoh as if it had in fact received

an unlimited right of use and that rewards respondent as if it had lost the same.

If, as respondent suggests, this extraordinary tilt in the law of patent damages has become so common in the lower federal courts as to be "mundane," that is all the more reason for this Court to examine fully the legal question presented.

CONCLUSION

Respondent's opposition brief provides no support for the decision below, which represents a dangerous departure from the concept embodied in section 284, that damages for nonwillful infringement must compensate only "for the use made of the invention by the infringer." 35 U.S.C. § 284 (1982). This Court has lately had occasion, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, ____ U.S. ____, 109 S. Ct. 971 (1989), to address the delicate balance crafted by Congress in the patent laws, and the importance of the underlying policy to encourage innovation.[11] The Federal Circuit's derogation of the statutory measure of damages principles by manipulation of hypothetical constructs threatens the vitality of real-world innovation.

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[11] These policy issues are explored in the proposed Brief Amicus Curiae filed by the International Electronics Manufacturers and Consumers of America on June 2, 1989.

For the reasons given above and in its Petition for Writ of Certiorari, petitioner respectfully urges this Court to grant certiorari to resolve this fundamental question of patent law.

Respectfully submitted,

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June 4, 1989

No. 88-1773

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,

Petitioner,

v.

DONALD L. SNELLMAN d/b/a NORFIN,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

MOTION OF INTERNATIONAL ELECTRONIC MANUFACTURERS AND CONSUMERS OF AMERICA, INC. FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF AMICUS CURIAE

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MOTION OF INTERNATIONAL ELECTRONICS MANUFACTURERS AND CONSUMERS OF AMERICA, INC. FOR LEAVE TO FILE BRIEF AMICUS CURIAE

International Electronics Manufactures and Consumers of America, Inc. ("IEMCA") has received the consent of Petitioner Ricoh Company, Ltd. to file a brief *amicus curiae* in the above-captioned case, but Respondent Donald L. Snellman has withheld such consent. Accordingly, pursuant to Rule 36.1 of the rules of the Court, IEMCA moves for leave to file the attached *amicus* brief.

IEMCA's interest in this case stems from the adverse effect the Federal Circuit's novel damages rule will have on the development of new products by its member companies. The Federal Circuit approved an award of damages for non-willful patent infringement based on projected, rather than actual, sales. IEMCA's member companies believe that this approach to damage awards magnifies the existing uncertainty in assessing infringement risks to the point that innovation and development of new products will be chilled.

As *amicus*, IEMCA would address the hindrance to innovation, product design, and competition that will inevitably result in high technology industries if the damage award standard approved by the Federal Circuit is allowed to stand. The process of product design in high technology industries is intertwined with judgments about possible violations of the intellectual property rights of others. These judgments involve assessments of both the potential risk of liability and the possible damage exposure. These assessments will be made unreasonably precarious if non-willful infringers can be subjected to damage awards not connected to the actual extent of infringing use. Accordingly, IEMCA would argue in support of the petition of Ricoh Company, Ltd. for a writ of *certiorari* to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit.

For these reasons, IEMCA requests that the Court grant its motion and consider the attached brief.

Respectfully submitted,

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF AMICUS CURIAE OF INTERNATIONAL ELECTRONIC MANUFACTURERS AND CONSUMERS OF AMERICA, INC.

The International Electronic Manufacturers and Consumers of America, Inc., as *amicus curiae*, respectfully supports the petition of Ricoh Company, Ltd. for a writ of *certiorari* to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit entered on November 25, 1988, in this case.

INTEREST OF AMICUS CURIAE

The International Electronic Manufacturers and Consumers of America, Inc. ("IEMCA") is an asso-

ciation of United States electronics companies, dealers, and retailers devoted to free trade in electronic products. Since its formation, it has actively pursued this interest in legislative and administrative forums where United States policy on trade is determined. Because of the policy implications of the decision of the Federal Circuit, IEMCA urges the Court to hear its views and grant *certiorari*.

IEMCA's member companies are major participants in high technology industries such as consumer electronics, office equipment, telecommunications, computers, and semi-conductor industries. Common to all of these industries are several basic attributes. Product design is unusually dynamic. IEMCA's members invest hundreds of millions of dollars each year in new product and new technology research. Product life-cycles are short, and the demand for innovation is high. Competition is intense, and the markets for, and purchasers of, the member companies' products expect ever-increasing functionality at ever-decreasing prices, achieved through technological innovation and progress. To survive in these industries improved products must be brought to market frequently and rapidly.

Because of the importance of research and innovation in high technology industries, many products and product components are patented. In the case of large, complex products such as telecommunications equipment, audio or video systems, or computers, a single product may be subject to literally hundreds of patents on various components or aspects. IEMCA's member companies hold many thousands of patents under the laws of the United States and other countries around the world. Their competitors in high

technology industries are similarly situated. The member companies are concerned with any legal rules that affect the design, refinement, manufacture and sale of products that are characterized by a rapid rate of innovation. They thus have a fundamental interest in the administration of the United States patent laws, both for the sake of protection of their own investment in research and innovation and for the sake of being able to compete effectively without fear of violating the intellectual property rights of competitors.

New product development and design decisions are affected not only by the scope of legal protection under patents, but also by the rules that govern claims for patent infringement damages. The threat of damage exposure for patent infringement has a significant effect on product development and design decisions. No properly advised company operating in a high technology industry can prudently undertake new product development plans without due regard for this threat.[1] For the reasons demonstrated below, if allowed to stand, the decision of the Federal Circuit in this case will enlarge that threat enormously and unreasonably. The effectuation of important policies underlying the federal patent laws, as well as laws designed to encourage free competition and prevent monopolies, will be impaired.

SUMMARY OF THE ARGUMENT

The Federal Circuit's approval of a novel damage award standard for non-willful infringement, based on

[1] In contrast to violations of trade secret or copyright rights where copying is required, a patent can be infringed and damages incurred by an infringer who has no knowledge of the patent infringed on but who inadvertently builds an infringing device.

projected sales that never occurred, magnifies unreasonably the existing uncertainty surrounding patent protection and will thereby have a chilling effect on innovation and competition. The process of product design in a high technology industry is intertwined with judgments about possible violations of the intellectual property rights of others. These judgments involve both the potential risk of liability and the possible damage exposure. The assessment of these two elements of infringement risk will be made unreasonably precarious, if non-willful infringers can be subjected to damage awards not connected to the actual extent of infringing use. The novel damage rule enunciated in the Federal Circuit exceeds the statutory language of the Patent Act, 35 U.S.C. § 284, which establishes that damages shall be adequate to compensate for infringement (i.e., the patentee's lost profits, if provable) and be not less than a reasonable royalty for use made of the invention. It also upsets the delicate balance between protecting invention and encouraging competition and product improvements. The Court should exercise its *certiorari* jurisdiction and accept this case in order to uphold these well-established statutorily-based damage calculation methods and reject the novel damage measure approved by the Federal Circuit.

ARGUMENT

(1) The Process of New Product Design Includes Assessment of the Potential Risks of Patent Infringement

The decision of the Federal Circuit, approving an award of damages for non-willful infringement based on projected sales that never occurred and thus ap-

proving a "reasonable royalty" of over 400% of the total revenues realized by Ricoh on sales of the infringing device, can have several unfortunate impacts on the administration of the United States patent laws. The impact with which IEMCA is most concerned is on the planning and decision-making process of companies like IEMCA's members who must give careful consideration to patent law compliance in designing new products and bringing them to market. The damage approach sanctioned by the Federal Circuit will magnify the existing uncertainty concerning patent protection, thereby discouraging product development, innovation and competition.

Typically, the design process begins with a broad design idea, often prompted by specific feedback from customers seeking improved product functionality. Implementation of the broad design idea usually entails a review of the existing technology to assess which method of implementation might be most effective and least costly. This review of existing technology includes not only an examination of technical literature but also a study of existing patents, which must disclose the patented invention so that it may be understood and practiced by "any person skilled in the art" and must also include "claims particularly pointing out and distinctly claiming the subject matter regarded as the invention." 35 U.S.C. § 112 (1982).

When the product design is developed, the enterprise developing the product must take prudent steps to assure, to a reasonable degree of certainty, that the new product design does not infringe existing patents. This process usually entails examination of any relevant United States patents by counsel expert in patent infringement issues and rendition of an opin-

ion by patent counsel that the design in question does or does not infringe upon the patents studied.[2] Patent counsel's written opinion assessing the infringement risks prior to product introduction is a critical part of the product introduction process. *See* Cox, *Keynote Address: Law and Technology*, 50 Alb. L. Rev. 495, 498 (1986); Seidel, *Counseling the Potential Patent Applicant*, 30 Prac. Law. 63 (1984) ("Counsel usually becomes involved in a patent matter at an early stage, such as when the inventor has just conceived his invention or made his first crude model. . . ."). While patent counsel's opinion focuses on interpreting the scope of patents that might be infringed, it can also have an effect on damage exposure. Reliance on well-founded, prior written opinions of counsel is permitted as a defense to a charge of willful infringement, thereby avoiding treble damage award claims. *Abbott Labs v. Baxter Travenol Labs*, 676 F. Supp. 831, 832 (N.D. Ill. 1987); *see also TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 902 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986) ("bad faith" showing not necessary before awarding increased damages for willful infringement).

For companies involved in rapidly changing technologies, as most IEMCA members are, it may not even be possible to obtain an opinion of patent counsel on the scope of competitors' patent protection until product development and marketing are well along. While new products may announce "Patent Pending," the secrecy rules of the U.S. Patent and Trademark Office for pending applications, together with the administrative delay inherent in the patent process (typ-

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[2] In some companies, opinions of this nature are rendered by in-house patent specialists.

ically 18 months between filing and issuance of a patent), means that there may be no publicly available information on patent coverage for the latest products, no matter how diligently counsel searches.[3]

The process of product design in a high technology industry is inextricably intertwined with judgments about patent infringement risks, including potential damages. Products will only be developed and marketed after a careful assessment of the potential risks. If the potential damage liability standard is vague and puts at stake revenues or assets unrelated to the new product, a prudent business person may reasonably choose not to market a newly developed product, and the inventive process will be stifled.

(2) The Federal Circuit's Decision Magnifies the Existing Uncertainty in Assessing Infringement Risks

Although a fundamental part of the design process, patent counsel's opinions concerning patent infringement rest upon inherently inexact judgments. If a claim of infringement is brought, the validity of any relevant existing patents, as well as whether a new product design would infringe them, ultimately are matters of what judges and juries will decide. As such, these opinions are commonly rendered not merely by registered patent counsel but by patent litigators who, through trial experience, have gained an appreciation of the subjective process of deciding, and awarding damages for, infringement complaints.[4]

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[3] *See Software Industry In Uproar Over Recent Rush of Patents*, N.Y. Times, May 12, 1989, at A1, col. 5. ("You won't really know you're infringing until it's too late," *id.* at D-5, col. 1).

[4] As noted earlier, in individual cases opinions may be rendered by other types of specialists. *See supra* note 2.

In theory the patent laws require precise claiming of the patented invention and encourage use of patent notice so that the public will know exactly which inventions are protected intellectual property and which are not. 35 U.S.C. §§ 112, 287 (1982). "The federal patent scheme provides a basis for the public to ascertain the status of the intellectual property embodied in any article in general circulation . . . . The public may rely upon the lack of notice in exploiting shapes and designs accessible to all." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 109 S. Ct. 971, 983 (1989) (citation omitted). In practice, however, the simplicity envisioned by the patent laws does not exist in the modern legal environment. An entire professional specialty—the patent bar—has developed to deal with the extraordinary complexity and uncertainty concerning patent validity and scope of protection. *See* O'Brien, *Establishing a Company Policy and Program for Intellectual Property Rights*, 50 Alb. L. Rev. 539, 540 (1986) ("Many companies maintain a staff of patent attorneys in their legal departments who possess the legal and scientific knowledge necessary, for processing patents on the company's technologies").

Determining infringement requires a construction of the meaning of the claim language and then application of the claims as construed to the allegedly infringing product or process. 4 D. Chisum, *Patents*, § 18.03 (1988); *see also Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1324 (Fed. Cir. 1987) ("Claim construction is a question of law that may require determination of underlying facts"). This construction is "rarely easy," because each patentee is given the opportunity to define his own terms. 4 D. Chisum, *Patents*, § 18.03 (1988). Moreover, con-

struction of patent claims usually must encompass a study of the file history, i.e., the record of the prosecution of the patent through the U.S. Patent and Trademark Office, and of other earlier patents that claim or disclose similar subject matter. Often, the study of the scope of a patent's claims will be part of a broader investigation of whether the patent in question satisfies the difficult, subjective standard of nonobviousness and meets the other requirements for a valid patent. If a patent is invalid because it is found obvious, its claims have no force and cannot be infringed. The uncertainties of validity issues therefore often compound the uncertainties of an infringement analysis.

When literal infringement is not found, as is often the case, the equitable doctrine of equivalents is applied. Infringement under this doctrine depends on whether the potentially infringing "device 'performs substantially the same function in substantially the same way to obtain the same result' " as the patented device. *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950) *(quoting Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42 (1929)); *accord Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1057 (Fed. Cir.), *cert. denied*, 105 S. Ct. 75 (1988). Whether a device is equivalent to a claimed invention is a factual inquiry and "requires a balancing of credibility, persuasiveness and weight of evidence." *Graver*, 339 U.S. at 609-610. Analyzing infringement under the doctrine of equivalents is an even more imprecise science than determining literal infringement.

As conveyed by the term "opinion," the advice of patent counsel on such matters rarely involves black-

and-white determinations of what is true or fals Ultimately, such advice reduces to an assessment risk and consequences. For almost any enterprise a tempting to bring a new product to market—parti ularly enterprises averse to the costs an entanglements of litigation—prudence would dictat maintaining a conservatively defined "margin safety" between the new product design, on the on hand, and any valid, relevant patents, on the othe *See generally* Cox, *Keynote Address: Law and Tech nology*, 50 Alb. L. Rev. at 498; Mackey, *Recent D velopments in the Licensing of Intellectual Propert* 50 Alb. L. Rev. 577, 579 (1986) ("[I]t's essential t obtain early and thorough evaluation of infringemen risks. We appraise the risk of litigation versus th cost of a license, if we can get one, or of designin around an adversely held patent").

A product developer must also include within it patent infringement risk assessment the damages tha may result. As noted above, where patent counsel ca provide a proper opinion that a new product is no infringing, the danger of treble damages based o willful infringement can be removed, but if a cou or jury nevertheless finds infringement liability, dam ages will be assessed under 35 U.S.C. § 284. Befor the decision of the Federal Circuit, the rules for dam ages were well-established.[5] Where actual damage

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[5] The standard for determining damages is based upon th mandate that damages shall be "adequate to compensate [th patent owner] for the infringement." 35 U.S.C. § 284 (1982 There are two methods by which damages may be calculate under this statute. If lost profits can be proven to a reasonabl probability, they are the measure used. *See Yarway Corp. Eur-Control USA, Inc.*, 775 F.2d 268, 275 (Fed. Cir. 1985). Whe

cannot be assessed, "reasonable royalties" are substituted as measured by a judicially-created methodology. The methodology assumes "hypothetical negotiations between willing licensor and willing licensee." *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988). The results of such court analysis can vary but are guided by the statutory directives of reasonableness and compensation for use of the invention made by the infringer. The novel damage approach approved by the Federal Circuit ignores these statutory boundaries and allows damages for sales that did not occur. In light of the Federal Circuit's decision, prudent enterprises developing new products are now likely to respond overcautiously in developing new product designs. This chilling effect is inconsistent with the patent system's fundamental policy of promoting innovation.

If the damage exposure for patent infringement—measured either by lost profits or by the alternative reasonable royalty standard—is based on the actual number of sales of the infringing product, then the developer of a new product can proceed with reasonable assurance that if legal advice concerning compliance with the patent laws does not accurately predict the results arrived at through the judicial system, the exposure will be some moderate fraction of the revenues actually realized from sales of the infringing product. In sharp contrast, under the ap-

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however, the evidence is insufficient to establish actual damages, a "reasonable royalty" is used as the standard for awarding damages. *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988); 35 U.S.C. § 284. *See also Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983).

proach sanctioned by the Federal Circuit, the consequences of a less-than-perfect prediction by patent counsel concerning validity or infringement issues may be the exaction of damages that are many times the revenues from sales of a product found to infringe. Damages based on sales not actually realized but merely projected are a disproportionate sanction for the actions of product developers found to infringe, despite efforts, in the best of faith, to navigate to legal safe harbor with experienced patent litigation counsel's opinions as their compass. It seems inevitable that a damages rule like the one approved by the Federal Circuit will force prudent enterprises developing new products—and their patent counsel—to enlarge greatly the above-mentioned "margin of safety" between the new product design and any existing patents that have any prospect of being upheld as valid. This tendency will heighten substantially the advantages of patentees in the competitive process and deter development of alternative designs.[6] *See United Carbon Co.* v. *Binney Co.*, 317 U.S. 228, 236 (1942) ("A zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field").

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[6] New products often are introduced on a pilot basis in a very limited market, in order to determine whether the investment necessary to take them to broader markets is justified. Under the approach sanctioned by the Federal Circuit, this type of experimentation in new product introduction will also carry greatly magnified hazards. A mere handful of sales in a test market may result in a damage exposure of tens of millions of dollars, even if the test marketing is a complete failure and the prospect of marketing the product more broadly has disappeared altogether.

(3) The Federal Circuit Has Upset the Balance Struck By the Patent Clause Between Rewarding Innovation and Promoting Competition

The Court has consistently recognized the careful balance struck in the patent clause of the Constitution between the proper protection and compensation of invention and the competitive benefits that flow from enhanced access to scientific and technical data.

> The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the "Progress of Science and the Useful Arts." . . .
>
> From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.

Bonito Boats, 109 S. Ct. at 975. The patent clause is "both a grant of power and a limitation." *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966). In practice, the balance that the Court contemplates is grounded in a risk assessment by potential product developers, involving both the scope of legal protection given to patents and the damages assessable in the event of non-willful infringement. It is this balance that the Federal Circuit's decision undermines, by approving damages that are utterly incommensurate with the sales revenue earned from a new design.

Any company properly advised of the Federal Circuit's approach will be forced toward one of three alternatives in order to maintain the required "margin of safety" in product development. First, to manage prudently the heightened risk of a large damage award for patent infringement, the developer of a new product will be under pressure to negotiate a license from the holders of existing patents in cases that are even slightly doubtful—even though such a license would be considered unnecessary absent the extraordinary exposure generated by the threat of a "projected sales" damage award. Second, the prudently advised developer of a new product may adopt a sub-optimal design that makes it possible to steer a wider berth around existing patents. In such cases, product design will be driven not by customer demand, efficiency considerations, or minimization of cost, but rather by the threat of an enormously disproportionate damage exposure.

Third, where design alternatives are limited or where the license fees demanded by holders of existing patents are too high, the developer of a highly desirable new product may abandon the effort altogether, thereby depriving consumers of a new product that could provide both cost and functional advantages. None of these outcomes is desirable. Each conflicts with the basic aim of the patent laws to strike an appropriate balance between protection of recognized innovation, on the one hand, and promotion of further research, innovation, refinement and competition on the other.

The present case is a powerful illustration of these ill effects. The petitioner, Ricoh Company, Ltd., prudently sought and obtained legal opinions from two

law firms specializing in patent law matters. It was advised that its product did not infringe the patent in question. As the jury eventually found, Ricoh proceeded in complete good faith.

Notwithstanding all of these undisputed facts, the Federal Circuit sanctioned a method of measuring damages that resulted in an award over four times greater than Ricoh's gross revenues from sales of the product found to have infringed. The appellate court approved an award of damages based on projected sales volumes that never were realized.[7] The conclusion is unavoidable that if Ricoh had ever even suspected that it might be required to pay a $12 million royalty for $2.7 million in sales revenues for the product in question, its design and marketing decisions would have been different. The design it believed to be noninfringing would never have found its way to the marketplace. The research and marketing decisions of any IEMCA member would be similarly inhibited in similar circumstances.

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[7] The case was remanded for further proceedings on the damages issue in accordance with the Federal Circuit's opinion, including the suggestion that the jury verdict could be reinstated. Whatever happens on remand, the appellate court's holding on damages stands as an unfortunate precedent for all the other patent cases within its appellate jurisdiction.

CONCLUSION

For the reasons stated above, *certiorari* should be granted to review the opinion of the Federal Circuit in the instant cause.

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